



# KING CETSHWAYO

DISTRICT MUNICIPALITY

**Annual financial statements  
for the year ended 30 June 2019**

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **GENERAL INFORMATION**

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<b>Legal form of entity</b>	Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the Republic of South Africa (Act 108 of 1996)
<b>Nature of business and principal activities</b>	The provision of services (water, sanitation & waste management) to communities in a sustainable manner, to promote social and economic development; and to promote a safe and healthy environment.
<b>Legislation governing the municipality's operations</b>	Constitution of the Republic of South Africa (Act 108 of 1996) Local Government: Municipal Finance Management Act (Act no.56 of 2003) Local Government: Municipal Systems Act (Act 32 of 2000) Local Government: Municipal Structures Act (Act 117 of 1998) Division of Revenue Act (Act 1 of 2007)
<b>Accounting Officer</b>	MTB Ndlovu
<b>Deputy Municipal Manager Finance</b>	MC Reddy
<b>Registered office</b>	King Cetshwayo District Municipality Krugerrand, CBD RICHARDS BAY 3900
<b>Business address</b>	King Cetshwayo District Municipality Krugerrand, CBD RICHARDS BAY 3900
<b>Postal address</b>	Private Bag X1025 RICHARDS BAY 3900
<b>Bankers</b>	Nedbank Limited
<b>Auditors</b>	Auditor-General of South Africa
<b>Senior Legal Advisor</b>	G Dlamini
<b>Municipal demarcation code</b>	DC 28

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**The reports and statements set out below comprise the annual financial statements presented to the Council:**

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MFMA	Municipal Finance Management Act (Act No. 56 of 2003)
GRAP	Generally Recognised Accounting Practice
IPSAS	International Public Sector Accounting Standards
IAS	International Accounting Standards
EQS	Equitable Share
WSIG	Water Services Infrastructure Grant
RUL	Remaining useful lives
RBIG	Regional Bulk Infrastructure Grant
MIG	Municipal Infrastructure Grant
EPWP	Expanded Public Works Programme
RRAMS	Rural Roads Asset Management Systems
MPAC	Municipal Public Accounts Committee
FMG	Finance Management Grant
LGSETA	Local Government Sector Education Training Authority
SARS	South African Revenue Services
VAT	Value Added Tax Act (Act No. 89 of 1991)
DWS	Department of Water Affairs and Sanitation
COGTA	Cooperative Governance and Traditional Affairs
MSCOA	Municipal Standard Chart of Accounts

**King Cetshwayo District Municipality**  
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**STATEMENT OF MUNICIPAL MANAGER'S RESPONSIBILITY**

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I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 93, in terms of Section 126(1) of the Municipal Finance Management Act (Act no. 56 of 2003) and which I have signed on behalf of the municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act (Act no. 20 of 1998) and the Minister of Provincial and Local Government determination in accordance with this Act.

The King Cetshwayo District Municipality, situated in the central business district, Richards Bay, is a category C municipality established in terms of Section 12(1) of the Municipal Structures Act, 1998 (Act No. 117 of 1998).

As required by Section 45 of the Municipal Systems Act and Section 121(4)(a) and (b) of the Municipal Finance Management Act, the annual financial statements were submitted to the Auditor General South Africa (AGSA) on 30 August 2019.



MTB Ndlovu  
Accounting Officer

Richards Bay

Friday, 30 August 2019

**King Cetshwayo District Municipality**  
 Annual Financial Statements for the year ended 30 June 2019

**Statement of Financial Position as at 30 June 2019**

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	2	5 843 562	5 993 168
Receivables from exchange transactions - consumer debtors	3	39 447 515	37 265 291
Receivables from exchange transactions - VAT	4	47 347 498	59 232 227
Receivables from non exchange transactions	5	16 635 507	18 946 088
Current portion of long term receivables	6	53 188	47 772
Cash and cash equivalents	7	495 583 295	498 282 726
		<b>604 910 565</b>	<b>619 767 272</b>
<b>Non-Current Assets</b>			
Long term receivables	6	116 181	172 941
Property, plant and equipment	8	2 402 997 559	2 279 856 533
Intangible assets	9	3 907 600	4 188 271
Heritage assets	10	700 000	700 000
Investments in municipal entities	11	726 877	688 134
Investments in financial assets - shares	12	88 789	79 600
		<b>2 408 537 006</b>	<b>2 285 685 479</b>
<b>Total Assets</b>		<b>3 013 447 571</b>	<b>2 905 452 751</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Current portion of long term liabilities	13	6 669 522	5 928 341
Payables from exchange transactions	14	235 175 358	256 888 395
Consumer deposits	15	10 058 400	10 011 629
Defined employee benefit obligations	16	1 166 000	938 000
Provisions	17	1 591 182	738 079
Unspent transfers and subsidies	22	92 895 169	2 940 553
		<b>347 555 631</b>	<b>277 444 997</b>
<b>Non-Current Liabilities</b>			
Long term liabilities	13	31 863 792	38 533 314
Defined employee benefit obligations	16	35 465 876	31 470 000
Provisions	17	75 155 263	73 569 215
		<b>142 484 931</b>	<b>143 572 529</b>
<b>Total Liabilities</b>		<b>490 040 562</b>	<b>421 017 526</b>
<b>Net Assets</b>			
Accumulated surplus		<b>2 523 407 009</b>	<b>2 484 435 225</b>
		<b>2 523 407 009</b>	<b>2 484 435 225</b>

\* See Note 40

**King Cetshwayo District Municipality**  
 Annual Financial Statements for the year ended 30 June 2019

**STATEMENT OF FINANCIAL PERFORMANCE**

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	18	87 183 142	77 590 709
Rental income	19	56 506	500 172
Interest received	20	40 968 328	46 638 976
Other income	23	2 239 135	3 210 798
Gain on disposal of property, plant and equipment		265 883	-
Fair value adjustments in investments	11 & 12	47 933	42 952
<b>Total revenue from exchange transactions</b>		<b>130 760 927</b>	<b>127 983 607</b>
<b>Revenue from non exchange transactions</b>			
Public contributions and donations	8	-	6 928 779
Transfers and subsidies	21	775 078 089	808 172 473
<b>Total revenue from non exchange transactions</b>		<b>775 078 089</b>	<b>815 101 252</b>
<b>Total revenue</b>		<b>905 839 016</b>	<b>943 084 859</b>
<b>Expenditure</b>			
Employee related costs	24	(225 009 660)	(190 182 188)
Remuneration of councillors	25	(11 679 483)	(11 778 097)
Depreciation, amortisation and impairment	26	(74 750 880)	(69 771 012)
Finance costs	27	(5 322 141)	(6 432 319)
Debt impairment	3	(8 753 607)	(5 317 989)
Bulk purchases	28	(39 200 886)	(47 254 675)
Contracted services	29	(361 123 625)	(378 319 560)
Transfers and subsidies	30	(19 355 000)	(11 519 719)
Loss on disposal of property, plant and equipment		-	(1 081 313)
Operational costs	31	(121 671 950)	(112 299 803)
<b>Total expenditure</b>		<b>(866 867 232)</b>	<b>(833 956 675)</b>
<b>Surplus for the year</b>		<b>38 971 784</b>	<b>109 128 184</b>

\* See Note 40

**King Cetshwayo District Municipality**  
 Annual Financial Statements for the year ended 30 June 2019

**STATEMENT OF CHANGES IN NET ASSETS**

Figures in Rand	Accumulated surplus	Total net assets
Previously reported balance as at 1 July 2017 - refer to note 40	2 373 561 553	2 373 561 553
Adjustment for prior year depreciation on assets still in use - refer to note 40	2 081 650	2 081 650
Adjustment for prior year depreciation on transferred assets - refer to note 40	(336 165)	(336 165)
<b>Balance as at 01 July 2017 restated</b>	<b>2 375 307 041</b>	<b>2 375 307 041</b>
Surplus for the year restated - refer to note 40	109 128 184	109 128 184
	<hr/>	<hr/>
<b>Balance as at 01 July 2018 restated</b>	<b>2 484 435 225</b>	<b>2 484 435 225</b>
Surplus for the year	38 971 784	38 971 784
	<hr/>	<hr/>
<b>Balance at 30 June 2019</b>	<b>2 523 407 009</b>	<b>2 523 407 009</b>

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\* See Note 40

**King Cetshwayo District Municipality**  
 Annual Financial Statements for the year ended 30 June 2019

**CASH FLOW STATEMENT**

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Receipts from consumers and other		79 556 614	93 033 527
Transfers and subsidies		866 329 625	792 855 855
Interest income		40 968 328	46 638 976
		<b>986 854 567</b>	<b>932 528 358</b>
<b>Payments</b>			
Employee costs	24 & 25	(236 689 143)	(201 960 285)
Suppliers		(532 542 538)	(519 189 647)
Finance costs		(5 322 141)	(6 432 319)
Transfers and subsidies	30	(19 355 000)	(11 519 719)
		<b>(793 908 822)</b>	<b>(739 101 970)</b>
<b>Net cash flows from operating activities</b>	32	<b>192 945 745</b>	<b>193 426 388</b>
<b>Cash flows from investing activities</b>			
Payment for property, plant and equipment		(190 718 268)	(193 669 549)
Insurance proceeds and proceeds from the sale of property, plant and equipment		950 089	251 910
Decrease in non-current/current receivables		51 344	43 794
Distribution of capital received from municipal entities		-	5 478 228
<b>Net cash flows from investing activities</b>		<b>(189 716 835)</b>	<b>(187 895 617)</b>
<b>Cash flows from financing activities</b>			
Repayment of long term liabilities	13	(5 928 341)	(10 605 497)
<b>Net cash flows from financing activities</b>		<b>(5 928 341)</b>	<b>(10 605 497)</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year		(2 699 431)	(5 074 726)
<b>Cash and cash equivalents at the end of the year</b>	7	<b>495 583 295</b>	<b>498 282 726</b>

\* See Note 40

# King Cetshwayo District Municipality

Annual Financial Statements for the year ended 30 June 2019

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	86 260 130	(2 877 146)	<b>83 382 984</b>	87 183 142	<b>3 800 158</b>	
Rental income	-	-	-	56 506	<b>56 506</b>	
Interest received	44 307 855	(4 800 000)	<b>39 507 855</b>	40 968 328	<b>1 460 473</b>	
Other income	1 510 313	2 918 030	<b>4 428 343</b>	2 239 135	<b>(2 189 208)</b>	41.1
<b>Total revenue from exchange transactions</b>	<b>132 078 298</b>	<b>(4 759 116)</b>	<b>127 319 182</b>	<b>130 447 111</b>	<b>3 127 929</b>	
<b>Revenue from non exchange transactions</b>						
<b>Transfer revenue</b>						
Transfers and subsidies	849 332 000	20 240 552	<b>869 572 552</b>	775 078 089	<b>(94 494 463)</b>	41.2
<b>Total revenue</b>	<b>981 410 298</b>	<b>15 481 436</b>	<b>996 891 734</b>	<b>905 525 200</b>	<b>(91 366 534)</b>	
<b>Expenditure</b>						
Employee related costs	(250 354 808)	17 795 053	<b>(232 559 755)</b>	(225 009 660)	<b>7 550 095</b>	
Remuneration of councillors	(12 870 278)	854 610	<b>(12 015 668)</b>	(11 679 483)	<b>336 185</b>	
Depreciation, amortisation and impairment	(92 507 940)	-	<b>(92 507 940)</b>	(74 750 880)	<b>17 757 060</b>	41.3
Finance costs	(5 322 141)	-	<b>(5 322 141)</b>	(5 322 141)	-	
Debt impairment	(2 827 790)	(6 000 000)	<b>(8 827 790)</b>	(8 753 607)	<b>74 183</b>	
Bulk purchases	(28 534 000)	(10 850 749)	<b>(39 384 749)</b>	(39 200 886)	<b>183 863</b>	
Contracted services	(286 998 084)	(52 624 336)	<b>(339 622 420)</b>	(361 123 625)	<b>(21 501 205)</b>	42
Transfers and subsidies	(2 910 000)	(16 445 000)	<b>(19 355 000)</b>	(19 355 000)	-	
Operational costs	(122 072 192)	(4 419 679)	<b>(126 491 871)</b>	(121 671 950)	<b>4 819 921</b>	
<b>Total expenditure</b>	<b>(804 397 233)</b>	<b>(71 690 101)</b>	<b>(876 087 334)</b>	<b>(866 867 232)</b>	<b>9 220 102</b>	
<b>Operating surplus/(loss)</b>	<b>177 013 065</b>	<b>(56 208 665)</b>	<b>120 804 400</b>	<b>38 657 968</b>	<b>(82 146 432)</b>	
Gain on disposal of property, plant and equipment	-	-	-	265 883	<b>265 883</b>	
Fair value adjustments in investments	-	-	-	47 933	<b>47 933</b>	
				<b>313 816</b>	<b>313 816</b>	
<b>Surplus</b>	<b>177 013 065</b>	<b>(56 208 665)</b>	<b>120 804 400</b>	<b>38 971 784</b>	<b>(81 832 616)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>177 013 065</b>	<b>(56 208 665)</b>	<b>120 804 400</b>	<b>38 971 784</b>	<b>(81 832 616)</b>	

# King Cetshwayo District Municipality

Annual Financial Statements for the year ended 30 June 2019

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

### Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	9 014 682	-	<b>9 014 682</b>	5 843 562	<b>(3 171 120)</b>	41.4
Receivables from exchange transactions - consumer debtors	29 096 601	(2 877 146)	<b>26 219 455</b>	39 447 515	<b>13 228 060</b>	41.5
Receivables from exchange transactions - VAT	-	-	-	47 347 498	<b>47 347 498</b>	41.5
Receivables from non exchange transactions	387 937	-	<b>387 937</b>	16 635 507	<b>16 247 570</b>	41.6
Current portion of long term receivables	48 662	-	<b>48 662</b>	53 188	<b>4 526</b>	
Cash and cash equivalents	407 407 400	-	<b>407 407 400</b>	495 583 295	<b>88 175 895</b>	41.7
	<b>445 955 282</b>	<b>(2 877 146)</b>	<b>443 078 136</b>	<b>604 910 565</b>	<b>161 832 429</b>	
<b>Non-Current Assets</b>						
Long term receivables	129 529	-	<b>129 529</b>	116 181	<b>(13 348)</b>	
Property, plant and equipment	2 684 362 181	25 217 477	<b>2 709 579 658</b>	2 402 997 559	<b>(306 582 099)</b>	41.8
Intangible assets	839 219	5 375 470	<b>6 214 689</b>	3 907 600	<b>(2 307 089)</b>	41.8
Heritage assets	700 000	-	<b>700 000</b>	700 000	-	
Investments in municipal entities	-	-	-	726 877	<b>726 877</b>	41.9
Investments in financial assets - shares	-	-	-	88 789	<b>88 789</b>	
	<b>2 686 030 929</b>	<b>30 592 947</b>	<b>2 716 623 876</b>	<b>2 408 537 006</b>	<b>(308 086 870)</b>	
<b>Total Assets</b>	<b>3 131 986 211</b>	<b>27 715 801</b>	<b>3 159 702 012</b>	<b>3 013 447 571</b>	<b>(146 254 441)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Current portion of long term liabilities	6 669 520	-	<b>6 669 520</b>	6 669 522	<b>2</b>	
Payables from exchange transactions	124 374 347	-	<b>124 374 347</b>	235 175 358	<b>110 801 011</b>	41.10
Consumer deposits	12 211 635	-	<b>12 211 635</b>	10 058 400	<b>(2 153 235)</b>	41.11
Defined employee benefit obligations	-	-	-	1 166 000	<b>1 166 000</b>	41.12
Provisions	1 695 807	-	<b>1 695 807</b>	1 591 182	<b>(104 625)</b>	
Unspent transfers and subsidies	-	-	-	92 895 169	<b>92 895 169</b>	41.13
	<b>144 951 309</b>	-	<b>144 951 309</b>	<b>347 555 631</b>	<b>202 604 322</b>	
<b>Non-Current Liabilities</b>						
Long term liabilities	31 863 793	-	<b>31 863 793</b>	31 863 792	<b>(1)</b>	
Defined employee benefit obligations	30 632 201	-	<b>30 632 201</b>	35 465 876	<b>4 833 675</b>	41.12
Provisions	92 807 490	-	<b>92 807 490</b>	75 155 263	<b>(17 652 227)</b>	41.14
	<b>155 303 484</b>	-	<b>155 303 484</b>	<b>142 484 931</b>	<b>(12 818 553)</b>	
<b>Total Liabilities</b>	<b>300 254 793</b>	-	<b>300 254 793</b>	<b>490 040 562</b>	<b>189 785 769</b>	
<b>Net Assets</b>	<b>2 831 731 418</b>	<b>27 715 801</b>	<b>2 859 447 219</b>	<b>2 523 407 009</b>	<b>(336 040 210)</b>	
<b>Reserves</b>						
Accumulated surplus	2 831 731 418	27 715 801	<b>2 859 447 219</b>	2 523 407 009	<b>(336 040 210)</b>	

# King Cetshwayo District Municipality

Annual Financial Statements for the year ended 30 June 2019

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

### Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Receipts from consumers and other	87 460 324	576 491	<b>88 036 815</b>	79 556 614	<b>(8 480 201)</b>	
Transfers and subsidies	849 332 000	20 240 552	<b>869 572 552</b>	866 329 625	<b>(3 242 927)</b>	
Interest income	44 617 974	(3 007 743)	<b>41 610 231</b>	40 968 328	<b>(641 903)</b>	
	<b>981 410 298</b>	<b>17 809 300</b>	<b>999 219 598</b>	<b>986 854 567</b>	<b>(12 365 031)</b>	
<b>Payments</b>						
Employee costs	(267 394 153)	23 542 363	<b>(243 851 790)</b>	(236 689 143)	<b>7 162 647</b>	
Suppliers	(432 785 209)	(75 620 764)	<b>(508 405 973)</b>	(532 542 539)	<b>(24 136 566)</b>	
Finance costs	(5 322 141)	-	<b>(5 322 141)</b>	(5 322 141)	-	
Transfers and subsidies	(2 910 000)	(16 210 000)	<b>(19 120 000)</b>	(19 355 000)	<b>(235 000)</b>	
	<b>(708 411 503)</b>	<b>(68 288 401)</b>	<b>(776 699 904)</b>	<b>(793 908 823)</b>	<b>(17 208 919)</b>	
<b>Net cash flows from operating activities</b>	<b>272 998 795</b>	<b>(50 479 101)</b>	<b>222 519 694</b>	<b>192 945 744</b>	<b>(29 573 950)</b>	
<b>Cash flows from investing activities</b>						
Payment for property, plant, equipment	(321 812 842)	(15 292 947)	<b>(337 105 789)</b>	(190 718 267)	<b>146 387 522</b>	41.15
Insurance proceeds and proceeds from the sale of property, plant and equipment	-	-	-	950 089	<b>950 089</b>	41.16
Decrease in non-current/current receivables	-	-	-	51 344	<b>51 344</b>	
<b>Net cash flows from investing activities</b>	<b>(321 812 842)</b>	<b>(15 292 947)</b>	<b>(337 105 789)</b>	<b>(189 716 834)</b>	<b>147 388 955</b>	
<b>Cash flows from financing activities</b>						
Repayment of long term liabilities	(5 928 340)	-	<b>(5 928 340)</b>	(5 928 341)	<b>(1)</b>	
Net decrease in cash and cash equivalents	(54 742 387)	(65 772 048)	<b>(120 514 435)</b>	(2 699 431)	<b>117 815 004</b>	
Cash and cash equivalents at the beginning of the year	409 338 000	88 944 726	<b>498 282 726</b>	498 282 726	-	
<b>Cash and cash equivalents at the end of the year</b>	<b>354 595 613</b>	<b>23 172 678</b>	<b>377 768 291</b>	<b>495 583 295</b>	<b>117 815 004</b>	

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **ACCOUNTING POLICIES**

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### **1. Presentation of annual financial statements**

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand and the figures in the statements have been rounded to the nearest rand. Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied, to all the years, in the preparation of these annual financial statements, are disclosed below.

#### **1.1 Significant judgements and sources of estimation uncertainty**

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### **1.1.1 Provisions**

Management determined an estimate for provisions raised based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Current and Non - Current Provisions.

##### **1.1.2 Useful lives of property, plant, equipment and intangible assets**

As described in accounting policies 1.6 & 1.8 the municipality depreciates/amortises its property, plant and equipment and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets become available for use. The useful lives and residual values of the assets are based on industry knowledge and are reviewed annually.

##### **1.1.3 Defined benefit plan liabilities**

As described in accounting policy 1.4, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are post retirement health benefit obligations and long service awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in note 16 to the financial statements.

##### **1.1.4 Revenue recognition**

Accounting policy 1.14 on Revenue from Exchange Transactions and accounting policy 1.15 on Revenue from Non - Exchange Transactions describe the conditions under which revenue is recorded by the management of the municipality. In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9 Revenue from Exchange Transactions and GRAP 23 Revenue from Non Exchange Transactions and in particular, whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

##### **1.1.5 Financial assets and liabilities**

The classification of financial assets and liabilities, into categories, is outlined in 1.3 below and is based in managements educated judgement.

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **ACCOUNTING POLICIES**

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### **1.2 New standards and interpretations**

Changes in accounting policies that are effected by management are applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of a change in policy. In such cases, the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

#### **The following new GRAP standards have been approved but are not yet effective**

##### **GRAP 20 - Related party disclosure**

This standard of GRAP on related parties replaces the IPSAS 20 standard on related party disclosure. No significant impact on the financial statements of the municipality is expected.

##### **GRAP 32 - Service concession arrangements: Grantor**

This standard of GRAP is to prescribe the accounting for service concession arrangements by the grantor, a public sector entity. A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time and the operator is compensated for its services over the period of the service concession arrangement. Although unlikely at this stage, the standard is only expected to have an impact on the municipality in the event of any future such arrangements.

##### **GRAP 34 - Separate financial statements**

The objective of this standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when a municipality or entity prepares separate financial statements. The standard is expected to have an impact on the municipality as the municipality currently has entities that require consolidations.

##### **GRAP 35 – Consolidated financial statements**

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when the entity controls one or more other entities.

To meet the objective in paragraph .01, this Standard:

- (a) requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- (b) defines the principle of control, and establishes control as the basis for consolidation;
- (c) sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- (d) sets out the accounting requirements for the preparation of consolidated financial statements; and
- (e) defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity

The standard is expected to have an impact on the municipality as the municipality currently has entities which it consolidates

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **ACCOUNTING POLICIES**

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### **GRAP 108 - Statutory receivables**

This standard deals with the prescribed accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables and the effect thereof.

### **GRAP 109 - Accounting by principals and agents**

This standard deals with the prescribed accounting requirements for transactions in a principal and agent relationship. No significant impact on the financial statements of the municipality is expected.

### **GRAP 110 - Living and non-living resources**

This standard prescribes recognition, measurement, presentation and disclosure requirements for living resources – Living resources are those resources that undergo biological transformation. The standard further prescribes disclosure requirements for non-living resources – Non-living resources are those resources, other than living resources, that occur naturally and have not been extracted.

No significant impact on the financial statements of the municipality is expected as the municipality does not anticipate that such resources will become part of the districts mandate.

### **Interpretations of the standards of GRAP**

IGRAP 17: Service concession arrangements where a grantor controls a significant residual interest in an asset

This Interpretation provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.

It is unlikely that the interpretation will have a material impact on the municipalities financial statements.

IGRAP 18 - Recognition and derecognition of land

The objective of this standard is to provide guidance on when an entity should recognise and derecognise land as its asset. It is only applicable to land. It considers structures separately and applies applicable GRAP to land once control is assessed.

It is unlikely that the interpretation will have a material impact on the municipality's financial statements.

IGRAP 19 - Liabilities to pay levies

The objective is to provide guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

It is unlikely that the interpretation will have a material impact on the municipality's financial statements.

### **The following approved standards of GRAP that entities are not required to apply**

#### **GRAP 18 - Segmental reporting (Municipalities and municipal entities are not required to apply)**

Compliance with this standard would have had an effect on the presentation only. Financial information would have been reported by segments.

The disclosure of this information will assist users of the financial statements to better understand the municipality's historical performance and to identify the resources allocated to support the major activities of the municipality.

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **ACCOUNTING POLICIES**

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### **1.3 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is derecognised when the rights to receive cash flows from the asset has expired or the municipality has transferred its right to receive cash flows from the asset. A financial liabilities is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability. Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **ACCOUNTING POLICIES**

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A financial asset is:

- cash;
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that arises from a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- combined instruments that are designated at fair value.

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **ACCOUNTING POLICIES**

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### **Classification**

The municipality has the following types of financial assets (classes and category) as reflected on the Statement of Financial Position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Cash and cash equivalents	Financial asset measured at amortised cost
Finance lease receivables	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost
Accounts receivable from exchange transactions	Financial asset measured at amortised cost
Accounts receivable from non exchange transactions	Financial asset measured at amortised cost
Short term investment deposits	Financial asset measured at amortised cost
Investment in fixed deposits	Financial asset measured at amortised cost
Investment in municipal entities	Financial asset measured at amortised cost
Investment in financial asset shares	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the statement of financial position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Long term liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost
Short term loans	Financial liability measured at amortised cost
Current portion of long term liabilities	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

### **Initial measurement of financial assets and financial liabilities**

The municipality measures a financial asset and financial liability initially at its fair value that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs are added to financial instruments carried at amortised cost or cost.

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **ACCOUNTING POLICIES**

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### **Subsequent measurement of financial assets and financial liabilities**

The municipality measures all financial assets and financial liabilities after initial recognition using the following category:

- Financial instruments at amortised cost.

### **Impairment and uncollectibility of financial assets**

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting the allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

### **Investment in municipal entities**

In the municipality's annual financial statements, investments in the municipal entities are carried at amortised cost at reporting date.

#### **1.4 Employee benefits**

##### **1.4.1 Short-term employee benefits**

Remuneration to employees is recognised in the statement of financial performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality has opted to treat its provision for leave pay as an accrual, included under current liabilities.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is included in payables from exchange transactions.

##### **1.4.2 Defined contribution plans**

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those funds. Contributions are recognised in the statement of financial performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **ACCOUNTING POLICIES**

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### **1.4.3 Defined benefit plans**

A defined benefit plan is a post- employment benefit plan other than a defined contribution plan.

#### **Post-retirement health care benefits**

The municipality has an obligation to provide post-retirement health care benefits to certain of its retirees. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

#### **Long-service allowance**

The municipality has an obligation to provide long-service allowance benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 5, 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

#### **Defined benefit plans**

The municipality contributes to various defined benefit plans on behalf of its qualifying employees. These funds are multi-employer funds (refer to Note 16 of the Annual Financial Statements for details). The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the discounted cash method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

These contributions are recognised in the statement of financial performance when employees have rendered the service entitling them to the contribution.

### **1.5 Provisions**

Provisions are recognised when:

- the municipality has a present legal and constructive obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate of future outflow of resources. Provisions are derecognised if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provision for the rehabilitation of the refuse landfill site is determined at best estimate by consulting engineers.

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **ACCOUNTING POLICIES**

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### **1.6 Property, plant and equipment**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of water, sanitation services and rental to others, or for administrative purposes, and are expected to be used during more than one financial period.

#### Initial recognition

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially recognised at cost on its acquisition date or in the case of assets acquired at nil or nominal consideration the deemed cost, being the fair value of the assets at acquisition date.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment for purposes of depreciation.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service the asset are recognised in the carrying amount of the related asset if the recognition criteria are met. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by the municipality.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment. Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

#### Subsequent measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic fair value of the subsequent expenditure can be reliably measured.

Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity for future economic benefits associated with the asset.

Where the municipality replaces part of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **ACCOUNTING POLICIES**

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Subsequent measurement of all property, plant and equipment are measured at cost, less accumulated depreciation and any accumulated impairment losses. The municipality does not recognise in the carrying amount of an item of property, plant and equipment the cost of day to day servicing of the item.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when compensation becomes receivable.

### Depreciation

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Land, with the exception of landfill sites and cemetery, is not depreciated as it is regarded as having an infinite life. If the cost of the land includes the cost of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits or service potential, obtained by incurring those costs. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost to their residual values over the estimated useful lives of the asset. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

**King Cetshwayo District Municipality**  
 Annual Financial Statements for the year ended 30 June 2019

**ACCOUNTING POLICIES**

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The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	
• Other buildings		30 years
• Permanent		30 - 50 years
Plant and Equipment	Straight line	
• Weed eater		2 years
• Lawn mower		2 years
• Other		5 years
• Skid mounted fire response unit		15 years
Furniture	Straight line	10 years
Computer equipment	Straight line	5 years
Infrastructure - plant and equipment	Straight line	
• Heavy duty infrastructure pumps		15 years
• Unspecified infrastructure assets		15 years
• Standby generator sets - water sewerage camps		15 years
Infrastructure - sewage services	Straight line	
• Sewerage containment		50 years
• Sewerage network		50 years
• Sewerage purification		50 years
Infrastructure - solid waste cell services	Straight line	
• Solid waste cell		15 years
• Cemetery		15 years
Infrastructure water services	Straight line	
• Small schemes		20 years
• Water abstraction		20 years
• Water network		20 years
• Water purification		20 years
• Water storage		50 years
Equipment	Straight line	
• Office equipment		5 years
Motor vehicles	Straight line	
• Bakkie, LDV, Sedan and tanker		5 - 7 years
• Truck		7 years
• Trailer and caravan		5 years
• Forklift		5 years
• Tractors		15 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

# **King Cetshwayo District Municipality**

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## **ACCOUNTING POLICIES**

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Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 8).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 8).

### **1.7 Heritage assets**

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

#### Impairment

Heritage assets are not depreciated but the municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Heritage assets which are shown at cost, are not depreciated due to the uncertainty regarding their estimated useful lives, as reflected below:

<b>Item</b>	<b>Useful life</b>
Memorial and statues	Indefinite life

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **ACCOUNTING POLICIES**

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### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

### Derecognition

The municipality derecognises a heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the item is derecognised.

### **1.8 Intangible assets**

An asset is identifiable if it either:

- is separable, i.e. capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

### Initial recognition

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost shall be measured at its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

### Subsequent measurement, amortisation and impairment

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **ACCOUNTING POLICIES**

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The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

<b>Item</b>	<b>Useful life</b>
Computer software, other	3-5 years

### Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

### **1.9 Investments in financial assets - shares**

An investment in a financial asset - shares is carried at fair value at each reporting date.

The municipality recognises a dividend or similar distribution in surplus or deficit in its separate annual financial statements when its right to receive the dividend or similar distribution is established.

### **1.10 Impairment of non-cash-generating assets**

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is the period of time over which an asset is expected to be used by the municipality.

### **Identification of impairment**

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **ACCOUNTING POLICIES**

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Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

### **1.11 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### **1.11.1 Finance leases - The municipality as a lessee**

Finance leases are recognised as assets and liabilities in the Statement of Financial Position at amounts equal to the fair value of the leased property or, if lower, the present value of the future minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

The discount rate used in calculating the present value of the future minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of the remaining balance of the liability.

#### **1.11.2 Operating leases - The municipality as a lessee**

Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Financial Performance on a straight line basis over the period of the lease.

### **1.12 Inventories**

Inventories comprise current assets held for consumption or distribution during the ordinary course of business.

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and, net realisable value or current replacement cost.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **ACCOUNTING POLICIES**

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When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, is recognised as a reduction in the amount of inventories recognised as an expense in the statement of financial performance in the period in which the reversal occurs.

### **1.13 Tax**

#### Tax Expense:

The municipality is exempt from income tax in terms of section 10(1)(A) of the Income Tax Act.

#### Value-Added Tax (VAT):

The municipality accounts for VAT on the accrual basis, based on the approval received from the Commissioner for South African Revenue Services to an application by the Municipality, permission has been given to remit or claim for value - added tax on the payments basis for debtors and creditors.

### **1.14 Revenue from exchange transactions**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and rebates.

#### **Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

# **King Cetshwayo District Municipality**

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## **ACCOUNTING POLICIES**

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Service charges relating to water are based on consumption. Meters are read on a monthly basis and when the meter is not read provisional estimates are made and based on those readings the revenue is invoiced monthly and recognised. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Service charges relating to refuse are recognised on a monthly basis in arrears and on an accrual basis by applying the approved tariff to each consumer that makes use of the landfill site.

Service charges from sanitation are raised on a monthly basis in accordance with the approved tariffs.

Interest and rentals are recognised on a time proportion basis.

### **1.15 Revenue from non-exchange transactions**

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in law or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes. Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any conditions associated with the grant.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property plant and equipment, when such items are brought into use. Where public contributions have been received but the municipality has not met the conditions, a liability is recognised.

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **ACCOUNTING POLICIES**

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### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

### **1.16 Grants in aid**

The municipality transfers money to individuals, organisations and other sectors of government from time to time.

When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

### **1.17 Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is suspended.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the municipality ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **ACCOUNTING POLICIES**

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### **1.18 Budget information**

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisation's (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts. Refer to note 41.

### **1.19 Unauthorised expenditure**

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (No. 56 of 2003). All unauthorised expenditure is recognised as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.20 Fruitless and wasteful expenditure**

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All fruitless and wasteful expenditure is recognised as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.21 Irregular expenditure**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.22 Commitments**

Items are classified as commitments where the municipality commits itself to future transactions that will result in the future outflow of resources. Capital commitments are not recognised in the statement of Financial Position as a liability but are included in the disclosure note 33, for approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.

### **1.23 Related parties**

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **ACCOUNTING POLICIES**

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Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed. The municipality applies GRAP 20 for related parties.

### **1.24 Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### **1.25 Contingent assets and contingent liabilities**

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

### **1.26 Going concern assumption**

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

### **1.27 Events after reporting date**

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

**King Cetshwayo District Municipality**  
 Annual Financial Statements for the year ended 30 June 2019

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

Figures in Rand	2019	2018
<b>2. Inventories</b>		
Consumable and maintenance materials	4 046 488	4 379 956
Water stock	1 797 074	1 613 212
	<b>5 843 562</b>	<b>5 993 168</b>
Inventories recognised as an expense during the year	3 239 582	3 566 129
The comparative figure for consumable and maintenance materials has been restated by an amount of R43 002 from R4 422 958 - refer to note 40.		
<b>Inventory pledged as security</b>		
No Inventory was pledged as security.		
<b>3. Receivables from exchange transactions - consumer debtors</b>		
<b>Gross balances</b>		
Water	64 995 364	59 932 993
Solid waste	4 708 366	3 966 493
Sanitation	9 968 287	8 009 996
	<b>79 672 017</b>	<b>71 909 482</b>
<b>Less: Allowance for impairment</b>		
Water	(33 809 411)	(29 164 517)
Solid waste	(382 841)	(741 256)
Sanitation	(6 032 250)	(4 738 418)
	<b>(40 224 502)</b>	<b>(34 644 191)</b>
<b>Net balance</b>		
Water	31 185 953	30 768 476
Solid waste	4 325 525	3 225 237
Sanitation	3 936 037	3 271 578
	<b>39 447 515</b>	<b>37 265 291</b>
<b>Summary of debtors by service type</b>		
<b>Water</b>		
Current (0 -30 days)	9 975 259	7 392 228
31 - 60 days	2 792 803	3 822 409
61 - 90 days	1 431 808	3 988 092
91 - 120 days	1 732 758	1 331 702
>120 days	49 062 736	43 398 562
Less: Allowance for impairment	(33 809 411)	(29 164 517)
	<b>31 185 953</b>	<b>30 768 476</b>

**King Cetshwayo District Municipality**  
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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

Figures in Rand	2019	2018
<b>Solid Waste</b>		
Current (0 -30 days)	2 310 219	3 039 909
31 - 60 days	1 109 825	8 709
61 - 90 days	73 019	107 473
91 - 120 days	186 742	4 653
> 120 days	1 028 561	805 747
Less: Allowance for impairment	(382 841)	(741 254)
	<b>4 325 525</b>	<b>3 225 237</b>
<b>Sanitation</b>		
Current (0 -30 days)	662 599	630 062
31 - 60 days	321 210	327 432
61 - 90 days	234 798	228 885
91 - 120 days	219 418	210 108
> 120 days	8 530 262	6 613 511
Less: Allowance for impairment	(6 032 250)	(4 738 420)
	<b>3 936 037</b>	<b>3 271 578</b>
<b>Summary of debtors by customer classification</b>		
<b>Domestic Consumers</b>		
Current (0 - 30 days)	6 596 329	5 572 417
31 - 60 days	1 628 684	1 791 739
61 - 90 days	1 257 637	3 539 681
91 - 120 days	1 359 936	953 785
> 120 days	49 320 728	42 340 561
	<b>60 163 314</b>	<b>54 198 183</b>
Less: Allowance for impairment	(40 020 425)	(33 902 936)
	<b>20 142 889</b>	<b>20 295 247</b>
<b>Industrial/Commercial Consumers</b>		
Current (0 - 30 days)	3 632 476	3 455 431
31 - 60 days	1 974 985	1 345 913
61 - 90 days	308 216	229 239
91 - 120 days	498 402	241 157
> 120 days	4 026 608	3 447 287
	<b>10 440 687</b>	<b>8 719 027</b>
Less: Allowance for impairment	(204 077)	(741 255)
	<b>10 236 610</b>	<b>7 977 772</b>
<b>National and Provincial Government Consumers</b>		
Current (0 - 30 days)	2 719 272	2 034 350
31 - 60 days	620 169	1 020 898
61 - 90 days	173 771	555 530
91 - 120 days	280 580	351 521
> 120 days	5 274 224	5 029 973
	<b>9 068 016</b>	<b>8 992 272</b>

**King Cetshwayo District Municipality**  
 Annual Financial Statements for the year ended 30 June 2019

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

Figures in Rand	2019	2018
<b>Total</b>		
Current (0 -30 days)	12 948 076	11 062 198
31 - 60 days	4 223 838	4 158 550
61 - 90 days	1 739 624	4 324 450
91 - 120 days	2 138 918	1 546 463
> 120 days	58 621 561	50 817 821
Less: Allowance for impairment	79 672 017	71 909 482
	(40 224 502)	(34 644 191)
	<b>39 447 515</b>	<b>37 265 291</b>
<b>Less: Allowance for impairment</b>		
Current (0 -30 days)	(1 827 119)	(1 572 123)
31 - 60 days	(877 307)	(730 278)
61 - 90 days	(1 027 176)	(751 944)
91 - 120 days	(1 003 771)	(780 337)
> 120 days	(35 489 129)	(30 809 509)
	<b>(40 224 502)</b>	<b>(34 644 191)</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(34 644 191)	(38 858 103)
Contributions to allowance	<b>(8 753 607)</b>	<b>(5 317 989)</b>
Debt impairment written off against allowance	3 173 296	9 531 901
	<b>(40 224 502)</b>	<b>(34 644 191)</b>

In the determination of the amounts deemed to be impaired at financial year end, an analysis of each debtor is undertaken. The debtors are classified into one of three categories.

- Category A      Regular payers, government accounts, consumers with amounts owing not older than 60 days.
- Category B      Irregular payers.
- Category C      Indigent customers, customers with debts older than 60 days with no payments made within the last 6 months and inactive accounts.

The value of the provision is determined for the detailed categories as follows:

- Category A      0% of consumer's total debt
- Category B      50% of consumer's debt less or equal to 180 days  
100% of consumer's debt > than 180 days
- Category C      100% of consumer's total debt

**4. Receivables from exchange transaction - VAT**

VAT receivable	<b>47 347 498</b>	<b>59 232 227</b>
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Refer to note 37 for full disclosure.

**King Cetshwayo District Municipality**  
 Annual Financial Statements for the year ended 30 June 2019

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

Figures in Rand	2019	2018
<b>5. Receivables from non exchange transactions</b>		
Employee, councillor account transactions	643 945	365 823
Deposits	7 385 251	7 402 459
Grant debtors - retention	-	1 296 919
uMhlathuze municipality	1 212 559	1 212 559
Payments in advance	3 550 538	3 861 253
Investment interest accrual	3 843 214	4 807 075
	<b>16 635 507</b>	<b>18 946 088</b>

**2018/2019**

uMhlathuze municipality:

A debtor amounting to R1 212 559 was raised as a result of the Ntambanana disestablishment and section 12 split notice. The debtor has not been settled by the municipality and the issue is being dealt with the management of the uMhlathuze municipality.

**2017/2018**

Grant debtors:

In the financial year, a grant debtor was raised for the Municipal Infrastructure Grant amounting to R1 296 919 for retentions not yet paid - refer to note 21.

**Debt impairment - exchange and non exchange transactions**

**2018/2019**

As at 30 June 2019, the total debt impairment as recognised in the statement of financial performance for receivables from exchange transactions amounted to R8 753 607.

**2017/2018**

As at 30 June 2018, the total debt impairment as recognised in the statement of financial performance for receivables from exchange transactions amounted to R5 317 989.

Debt impairment - receivables from exchange transactions

**8 753 607**      **5 317 989**

**Exchange and non exchange receivables pledged as security**

No exchange or non exchange receivables have been pledged as security.

**King Cetshwayo District Municipality**  
 Annual Financial Statements for the year ended 30 June 2019

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

Figures in Rand	2019	2018
<b>6. Long term receivables</b>		
Staff home loans	116 181	<u>172 941</u>
Current portion of long term receivables	53 188	47 772
Non-current long term receivables	116 181	<u>172 941</u>
	169 369	220 713

**Staff home loans**

Housing loans were granted to qualifying staff prior to 1 July 2004. These loans attract interest per the fringe benefit interest rate as determined by the South African Revenue Services annually. These loans will be repayable in accordance with the home loan agreements.

**King Cetshwayo District Municipality**  
 Annual Financial Statements for the year ended 30 June 2019

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

Figures in Rand	2019	2018
<b>7. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	3 800	3 800
Cash book balances	145 579 495	148 278 926
Call Investment deposits	350 000 000	350 000 000
	<b>495 583 295</b>	<b>498 282 726</b>

**Call investment deposits**

Call investment deposits portfolio is detailed below:

Financial Institution	Maturity Date	Maturity Date
NEDBANK	02/07/2019	75 000 000
NEDBANK	24/07/2019	60 000 000
NEDBANK	26/09/2019	90 000 000
STANDARD	On Call	20 000 000
STANDARD	05/08/2019	50 000 000
STANDARD	26/08/2019	55 000 000
ABSA		25 000 000
NEDBANK	14/09/2018	60 000 000
STANDARD	On Call	20 000 000
STANDARD	03/07/2018	70 000 000
STANDARD	02/08/2018	100 000 000
INVESTEC	18/07/2018	50 000 000
INVESTEC	04/09/2018	25 000 000
		<b>350 000 000</b>
		<b>350 000 000</b>

An average interest rate of 7.69% and 7.71% was received on investments placed for the 2018/2019 and 2017/2018 financial years respectively.

The detailed investment register is available at the registered office of the municipality.

No cash and cash equivalents have been pledged as collateral.

**King Cetshwayo District Municipality**  
 Annual Financial Statements for the year ended 30 June 2019

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

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**Figures in Rand**

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The municipality had the following bank accounts

<b>Account description / number</b>	<b>Bank statement balances</b>			<b>Cash book balances</b>		
	<b>30 June 2019</b>	<b>30 June 2018</b>	<b>30 June 2017</b>	<b>30 June 2019</b>	<b>30 June 2018</b>	<b>30 June 2017</b>
NEDBANK - Primary Account Account No 145 408 8885	115 984 681	115 472 330	141 689 390	115 982 109	115 441 207	141 660 059
Nedbank - Billing Account Account No 145 408 8893	2 081 593	3 226 768	1 468 723	2 081 593	2 862 736	1 208 083
Nedbank - Expenditure Account Account No 145 408 9016	27 515 793	29 974 983	55 485 510	27 515 793	29 974 983	55 485 510
<b>Total</b>	<b>145 582 067</b>	<b>148 674 081</b>	<b>198 643 623</b>	<b>145 579 495</b>	<b>148 278 926</b>	<b>198 353 652</b>

Cash at banks earns interest on a consolidated daily balance. Detailed bank reconciliation's in support of the cash book balances are available at the registered office of the municipality.

# King Cetshwayo District Municipality

Annual Financial Statements for the year ended 30 June 2019

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**Figures in Rand**

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### 8. Property, plant and equipment

	2019			2018		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Community assets	20 833 149	(3 569 353)	17 263 796	14 840 803	(2 868 505)	11 972 298
Assets under construction	894 162 052	-	894 162 052	896 497 569	-	896 497 569
Infrastructure	1 930 392 058	(514 135 996)	1 416 256 062	1 741 173 486	(449 680 178)	1 291 493 308
Other assets	124 856 256	(49 540 607)	75 315 649	123 412 032	(43 518 674)	79 893 358
<b>Total</b>	<b>2 970 243 515</b>	<b>(567 245 956)</b>	<b>2 402 997 559</b>	<b>2 775 923 890</b>	<b>(496 067 357)</b>	<b>2 279 856 533</b>

### Reconciliation of property, plant and equipment - June 2019

	Opening balance	Additions	Disposals	Transfers	Depreciation and impairment	Impairment	Total
Community Assets	11 972 298	-	-	5 992 346	(700 848)	-	17 263 796
Assets under construction	896 497 569	187 386 162	-	(189 721 679)	-	-	894 162 052
Infrastructure	1 291 493 308	5 489 237	-	183 729 333	(63 722 269)	(733 547)	1 416 256 062
Other assets	79 893 358	4 826 960	(585 532)	-	(8 819 137)	-	75 315 649
<b>Total</b>	<b>2 279 856 533</b>	<b>197 702 359</b>	<b>(585 532)</b>	<b>-</b>	<b>(73 242 254)</b>	<b>(733 547)</b>	<b>2 402 997 559</b>

# King Cetshwayo District Municipality

Annual Financial Statements for the year ended 30 June 2019

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**Figures in Rand**

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### Reconciliation of property, plant and equipment - June 2018

	Opening balance	Additions	Disposals	Transfers	Donations	Depreciation and impairment	Total
Community assets	12 478 375	-	-	-	-	(506 077)	11 972 298
Assets under construction	945 531 745	164 497 941	-	(214 027 117)	495 000	-	896 497 569
Infrastructure	1 120 757 222	16 473 421	(12 346)	214 027 117	-	(59 752 106)	1 291 493 308
Other assets	78 522 029	5 100 262	(1 320 877)	-	6 428 779	(8 836 835)	79 893 358
	<b>2 157 289 371</b>	<b>186 071 624</b>	<b>(1 333 223)</b>	-	<b>6 923 779</b>	<b>(69 095 018)</b>	<b>2 279 856 533</b>

### Expenditure incurred to repair and maintain property, plant and equipment

	2018/2019	2017/2018
Other assets	5 416 516	4 241 392
Infrastructure	199 231 383	158 119 194
	<b>204 647 899</b>	<b>162 360 586</b>

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

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### **Figures in Rand**

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A register containing the information required by section 63 of the Municipal Finance Management Act (Act No. 56 of 2003) is available for inspection at the registered office of the municipality.

#### **2018/2019**

No assets have been pledged as security nor have any restrictions been placed on any assets under the control of the municipality and additions disclosed are inclusive of accruals.

The total assets under construction amounting to R894 162 052 relates to infrastructure assets of R893 349 941 and community and other assets of R812 111.

#### **2017/2018**

No assets have been pledged as security nor have any restrictions been placed on any assets under the control of the municipality and additions disclosed are inclusive of accruals.

The total assets under construction was restated by an amount of R6 651 570 from R903 149 139 to R896 497 569 which pertains to prior year assets now capitalised. The carrying value of property, plant and equipment was restated by an amount of R878 709 from R2 278 977 824 to R2 279 856 533 - refer to note 40. The restated total assets under construction amounting to R896 497 569 relates to infrastructure assets of R889 747 221 and community and other assets of R6 750 348.

The municipality received donated assets from a service provider and the Department of Water Affairs with a cost of R8 773 830 and a carrying value of R6 428 779. A further donation of assets was received from the Department of Cooperative Governance and Traditional Affairs amounting to R495 000 being the cost thereof.

**King Cetshwayo District Municipality**  
 Annual Financial Statements for the year ended 30 June 2019

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

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**Figures in Rand**

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**9. Intangible assets**

	2019			2018		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software and other	6 176 492	(2 268 892)	3 907 600	6 345 654	(2 157 383)	4 188 271

**Reconciliation of intangible assets - June 2019**

	Opening carrying value	Additions	Disposals	Amortisation	Total
Computer software & other	4 188 271	593 082	(98 674)	(775 079)	3 907 600

**Reconciliation of intangible assets - June 2018**

	Opening carrying value	Additions	Amortisation	Total
Computer software & other	3 692 633	1 171 632	(675 994)	4 188 271

No intangible assets have been pledged as security nor any restrictions imposed thereon.

**2017/2018**

The carrying value for intangible assets was restated by an amount of R159 464 from R4 028 808 to R4 188 271 - refer to note 40.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**Figures in Rand**

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### 10. Heritage assets

	2019			2018		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Historical monuments	700 000	-	700 000	700 000	-	700 000

#### Reconciliation of heritage assets - June 2019

	Opening balance	Total
Historical monuments	700 000	700 000

#### Reconciliation of heritage assets - June 2018

	Opening balance	Total
Historical monuments	700 000	700 000

#### **Historical monument**

The municipality commissioned a historical monument of King Cetshwayo in the 2016/2017 financial year and as such deemed this as a cultural heritage asset.

**King Cetshwayo District Municipality**  
 Annual Financial Statements for the year ended 30 June 2019

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

Figures in Rand	2019	2018
<b>11. Investments in municipal entities</b>		
	%	%
	holding June 2019	holding June 2018
uThungulu Financing Partnership	99,00 %	-
uThungulu House Development Trust	100,00 %	725 877
King Cetshwayo Fresh Produce Market (Pty) Ltd	100,00 %	1 000
	<b>726 877</b>	<b>688 134</b>

The carrying amounts of municipal entities are shown net of impairment losses - refer to note 39.

The finance headlease payments represented payments by the municipality for a headlease property in which the municipality has a controlling interest at the end of the lease through the Uthungulu Financing Partnership and consisted of a lease over Portion 2 of ERF 10033 Richards Bay, 2 Haiti, Central Business District, known as King Cetshwayo House. The original lease period expired on 31 October 2017 wherein the last payment was made and the ownership of the property vested in the municipality.

The Head Lease Agreement and Sub-Lease Agreement terminated on 1 October 2018 in accordance with the terms and conditions of such agreements and the partners have therefore agreed to dissolve the Partnership, in accordance with the provisions of clause 3 of the Partnership Agreement.

The municipality has consulted Council's attorneys regarding the different options in terms of the dissolution of the uThungulu House Development Trust. Council has taken a resolution to dissolve the uThungulu House Development Trust which is administering the building and the subsequent processes were initiated in the year under review.

**Controlled entities pledged as security**

No investments have been pledged as security.

**King Cetshwayo District Municipality**  
 Annual Financial Statements for the year ended 30 June 2019

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

Figures in Rand	2019	2018								
<b>12. Investments in financial assets - shares</b>										
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 33.33%; text-align: left; padding-bottom: 5px;">Name of entity</th><th style="width: 33.33%; text-align: left; padding-bottom: 5px;">Listed / Unlisted</th><th style="width: 33.33%; text-align: left; padding-bottom: 5px;">No. of shares 2019</th><th style="width: 33.33%; text-align: left; padding-bottom: 5px;">No. of shares 2018</th></tr> </thead> <tbody> <tr> <td>Sanlam Limited</td><td>Listed</td><td style="text-align: right;">1136</td><td style="text-align: right;">1136</td></tr> </tbody> </table>	Name of entity	Listed / Unlisted	No. of shares 2019	No. of shares 2018	Sanlam Limited	Listed	1136	1136	<b>88 789</b>	<b>79 600</b>
Name of entity	Listed / Unlisted	No. of shares 2019	No. of shares 2018							
Sanlam Limited	Listed	1136	1136							

**Fair value adjustment**

The fair values are determined annually at the end of the reporting period.

- The fair values of listed or quoted investments are based on the quoted market share price.

**Reconciliation of fair value adjustment in 2018/2019**

Share price as at 30 June 2018 R70.07

Share price as at 30 June 2019 R78.16

Share value as at 30 June 2018 R79 600

Share value as at 30 June 2019 R88 789

Gain on fair value adjustment R 9 189

**Reconciliation of fair value adjustment in 2017/2018**

Share price as at 30 June 2017 R64.80

Share price as at 30 June 2018 R70.07

Share value as at 30 June 2017 R73 613

Share value as at 30 June 2018 R79 600

Gain on fair value adjustment R 5 987

The municipality was one of numerous municipalities who became incidental shareholders in Sanlam Limited as a result of a demutualisation process undertaken by Sanlam Limited in 1998.

The shares in Sanlam Limited are measured at fair value with reference to quoted prices on the Johannesburg Stock Exchange as at each reporting date and the transactions have been applied accordingly.

**King Cetshwayo District Municipality**  
 Annual Financial Statements for the year ended 30 June 2019

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

Figures in Rand	2019	2018
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**13. Long term liabilities**

**At amortised cost**

ABSA Bank 12.6%	24 979 601	28 393 087
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The loan was raised originally for the development of the King Cetshwayo House building and the greater Mthonjaneni Bulk Water Scheme. Subsequently infrastructure for the landfill site and sewer treatment plants were constructed there from. The original loan is repayable after a 14 year period (remaining period 5 years). Interest at 12.6% is payable 6 monthly in arrears on the last day of the month.

INCA 11.95%	13 553 713	16 068 568
-------------	------------	------------

The loan was raised to finance extensions to King Cetshwayo House and the development of the Regional Solid Waste Site cell 2. The original loan is repayable after a 14 year period (remaining period 4 years). Interest at 11.95% is payable 6 monthly in arrears on the last day of the month.

<b>Long term liabilities</b>	<b>38 533 314</b>	<b>44 461 655</b>
<b>Non-current liabilities</b>		
At amortised cost	31 863 792	38 533 314
<b>Current liabilities</b>		
At amortised cost	6 669 522	5 928 341

**14. Payables from exchange transactions**

Accrued leave pay	14 838 556	12 681 180
Amounts received in advance	5 112 249	5 399 600
uMhlathuze Municipality	37 561	37 561
Retention payables	49 832 736	55 935 803
Trade payables	165 354 256	182 834 251
	<b>235 175 358</b>	<b>256 888 395</b>

Payables are settled in terms of legislation, except for retentions which are settled in terms of the contract agreement. Payments received in advance are non interest bearing.

**15. Consumer deposits**

Water	10 058 400	10 011 629
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In terms of Council's by-laws no interest is raised or paid on consumer deposits.

**King Cetshwayo District Municipality**  
 Annual Financial Statements for the year ended 30 June 2019

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

Figures in Rand	2019	2018
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**16. Defined employee benefit obligations**

**Defined benefit plan**

**Post retirement health care benefit liability**

The municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current condition of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The most recent actuarial valuations of the unfunded defined benefit obligation was carried out as at 30 June 2019 by PWC, a member of the Actuarial Society of South Africa.

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit funding method.

No other post retirement benefits are provided by the municipality.

The municipality makes monthly contributions to the following medical aid schemes:

- Bonitas
- Keyhealth
- Hosmed
- Samwumed
- LA Health

The post employment health care benefit plan is a defined benefit plan, of which the members are made up of 333 in service members employees (2018 - 314) and 4 continuation members - retirees, widowers and orphans (2018 - 4).

**Estimated liability in respect of past services**

In service members (Employees)	25 549 707	23 678 000
Continuation members (Retirees, widowers and orphans)	2 319 000	2 275 000
	<b>27 868 707</b>	<b>25 953 000</b>

**King Cetshwayo District Municipality**  
 Annual Financial Statements for the year ended 30 June 2019

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

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**Long service awards**

A long service award is granted to municipal employees per the policy after the completion of fixed periods of continuous service with the municipality which includes their uninterrupted service with the former Local Authorities amalgamated in December 2000. The said award comprises a certain number of vacation leave days which, in accordance with the option exercised by the beneficiary employee, can be converted into an amount based on his or her basic salary applicable at the time the award became due or, alternatively, credited to his or her vacation leave accrual.

The provision represents an estimation of the awards to which employees in the service of the municipality at 30 June 2019 may become entitled to in future, based on actuarial valuation performed at that date.

The most recent actuarial valuations of the unfunded defined benefit obligation was carried out as at 30 June 2019 by PWC, a member of the Actuarial Society of South Africa.

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit funding method.

No other long service benefits are provided by the municipality.

**The amounts recognised in the statement of financial position are as follows:**

**Carrying value**

Present value of the defined benefit obligation - post employment medical aid benefits	(27 868 707)	(25 953 000)
Present value of the defined benefit obligation - long service awards	(8 763 169)	(6 455 000)
	<b>(36 631 876)</b>	<b>(32 408 000)</b>
Non-current liabilities	<b>(35 465 876)</b>	<b>(31 470 000)</b>
Current liabilities	<b>(1 166 000)</b>	<b>(938 000)</b>
	<b>(36 631 876)</b>	<b>(32 408 000)</b>

**Changes in the present value of the defined benefit obligation are as follows:**

Opening balance	32 408 000	30 839 000
Net expense recognised in the statement of financial performance - total included in employee related costs	4 223 876	1 569 000
	<b>36 631 876</b>	<b>32 408 000</b>

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 Annual Financial Statements for the year ended 30 June 2019

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

Figures in Rand	2019	2018
<b>Net expense recognised in the statement of financial performance</b>		
Post employment medical aid benefit - current service cost	2 399 000	1 710 000
Long service awards - current service cost	842 000	764 000
Long service awards - past service cost	1 152 000	-
Post employment medical aid benefit - interest cost	2 732 000	2 642 000
Long service awards - interest cost	709 000	585 000
Post employment medical aid benefit - actuarial loss / (gain)	(3 058 000)	(2 636 876)
Long service awards - actuarial loss / (gain)	562 000	(862 897)
Post employment medical aid benefit - benefits paid	(157 293)	(154 124)
Long service awards - benefits paid	(956 831)	(478 103)
	<b>4 223 876</b>	<b>1 569 000</b>

In the year under review certain clauses within the conditions of service collective agreement between SALGA and IMATU/SAMVU were amended. Past service costs were incurred in the current valuation period as a result of these amendments to the benefits scheme. Employees are now entitled to receive a long service award after 5 years of service of 5 leave days, and exiting employees are now eligible for pro rata awards. The effect of this amendment has resulted in an additional liability of R1 152 000.

**Calculation of actuarial gains and losses**

Post employment medical aid benefit - actuarial loss / (gain)	(3 058 000)	(2 636 876)
Long service awards - actuarial loss / (gain)	562 000	(862 897)
	<b>(2 496 000)</b>	<b>(3 499 773)</b>

**Expected future service and interest costs**

Post employment medical aid benefits

Based on the most recent actuarial valuation as at 30 June 2019, the future service cost for the 2019/2020 financial year was established to be R2 470 000, whereas the interest cost is estimated to be R2 987 000 (2018 - R2 399 000 and R2 732 000 respectively).

The municipality expects to make a contribution of R200 000, (2018 - R200 000) to the defined benefit plans during the 2019/2020 financial year.

Long service awards

Based on the most recent actuarial valuation as at 30 June 2019, the future service cost for the 2019/2020 financial year was established to be R1 151 000, whereas the interest cost is estimated to be R837 000 (2018 - R842 000 and R709 000 respectively).

The municipality expects to make a contribution of R966 000, (2018 - R738 000) to the defined benefit plans during the 2019/2020 financial year.

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

Figures in Rand	2019	2018
<b>Key assumptions used</b>		
Assumptions used at the reporting date:		
<u>Post employment medical aid benefits</u>		
Discount rate	10,30%	10,10%
Medical aid contribution inflation	8,15 %	8,40 %
Net effective discount rate	1,99%	1,57%
Consumer Price Inflation (CPI)	6,14 %	6,40 %
<u>Long service awards</u>		
Discount rate	8,50%	9,10 %
Normal salary increase rate	5,70 %	6,80%
Net effective discount rate	2,65%	2,15 %
Consumer Price Inflation (CPI)	4,70%	5,80%

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

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The expected retirement age for both females and males is 63 years (2018 - 63 years for both females and males).

The basis on which the discount rate and medical aid inflation rate has been determined for the 2018/2019 financial year are as follows for post employment medical aid benefits respectively:

The discount rate used in the valuation was determined by reference to market yields on government bonds as at the balance sheet date. In line with GRAP 25 and current market practice, government bond yields are therefore used when setting best estimate discount rate assumption.

The currency and term of the government bonds shall be consistent with the currency and estimated term of the post employment benefit obligations.

The estimated discount rate was set equal to the yield on the BESA zero-coupon yield curve with a term of 17 years, the expected duration of the liability based on the current membership data, as at 30 June 2019.

In the past, healthcare cost inflation has typically exceeded the Consumer Price Index ("CPI") by a margin of 1% to 2%. The Bond Exchange of South Africa fits a real yield curve on index-linked bonds. This real yield curve is published together with the BEASSA yield curve on zero-coupon government bond yields, which is a nominal yield curve.

The inflation assumption methodology has been updated to reflect the use of the real and nominal yield curves to determine the inflation assumption as this provides more accurate information on the outlook on inflation at specific durations. Therefore, the best estimate inflation assumption is calculated as the difference between the nominal and real yield curves at the point corresponding to the duration of the liability, including a 0.5% inflation risk premium adjustment to make appropriate allowance for the current economic environment. A margin of 2% was added to this value to determine the healthcare cost inflation assumption.

The CPI inflation assumption using this methodology is 6.14% as at 30 June 2019. Thus, the healthcare cost inflation has been set as 8.15% at the valuation date, after allowing for a margin of 2% over CPI inflation.

The relationship between the gross discount rate and healthcare cost inflation rate is more important than the individual values. The net discount rate is also a highly significant assumption in the respective valuations.

The future medical benefits are projected in line with the healthcare cost inflation rate and discounted at the gross discount rate. This is equivalent to discounting the benefits at their current level at the net discount rate.

The net discount rate therefore depends on the relationship between the gross discount rate and the healthcare cost inflation rate respectively. Using the gross discount and healthcare cost inflation rates as shown above, the resulting net discount rate is 1.99% (calculated as  $(1 + \text{discount rate}) / (1 + \text{healthcare cost inflation rate}) - 1$ ) for the 30 June 2019 valuation.

The basis on which the discount rate and salary inflation has been determined for the 2018/2019 financial year are as follows for long service awards respectively:

The discount rate used in the valuation was determined by reference to market yields on government bonds as at the balance sheet date. In line with GRAP 25 and current market practice, government bond yields are therefore used when setting best estimate discount rate assumption.

The currency and term of the government bonds shall be consistent with the currency and estimated term of the post employment benefit obligations.

The estimated discount rate was set equal to the yield on the BEASSA zero-coupon yield curve with a term of 7.5 years, the expected duration of the liability based on the current membership data, as at 30 June 2019.

# **King Cetshwayo District Municipality**

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## **NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

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In the past, salary inflation has typically exceeded the Consumer Price Index ("CPI") by a margin of around 2 %.

The Bond Exchange of South Africa fits a real yield curve on index-linked bonds. This real yield curve is published together with the BEASSA yield curve on zero-coupon government bond yields, which is a nominal yield curve.

The inflation assumption methodology has been updated to reflect the use of the real and nominal yield curves to determine the inflation assumption as this provides more accurate information on the outlook on inflation at specific durations. Therefore, the best estimate inflation assumption is calculated as the difference between the nominal and real yield curves at the point corresponding to the duration of the liability, including a 0.5% inflation risk premium adjustment to make appropriate allowance for the current economic environment. A margin of 1% was added to this value to determine the salary inflation assumption, prior to further merit increases.

The CPI inflation assumption using this methodology is 4.70% as at 30 June 2019. Thus, the salary inflation has been set as 5.70% at the valuation date, after allowing for a margin of 1% over CPI inflation.

The relationship between the gross discount rate and salary inflation rates are more important than the individual values. The net discount rate is also a highly significant assumption in the respective valuations.

The future long service awards are projected in line with the salary inflation rate and discounted at the gross discount rate. This is equivalent to discounting the benefits at their current level at the net discount rate.

The net discount rate therefore depends on the relationship between the gross discount rate and the salary inflation rate respectively. Using the gross discount and salary inflation rates as shown above, the resulting net discount rate is 2.65% (calculated as  $(1 + \text{discount rate}) / (1 + \text{salary inflation rate}) - 1$ ) for the 30 June 2019 valuation.

Due to the current market conditions, the net discount rate as at 30 June 2019 is positive.

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<b>Other assumptions</b>		
Assumed healthcare cost trends and salary inflation rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends and salary inflation rates would have the following effects:		
<u>Increase of 1% / (Decrease of 1%)</u>		
Effect on the post employment medical aid (pemab)	1 393 000	1 075 000
Effect on the aggregate of the service cost and interest cost - pemab	283 000	226 000
Effect on the post employment medical aid (pemab)	(1 945 000)	(1 577 000)
Effect on the aggregate of the service cost and interest cost - pemab	(396 000)	(329 000)
Effect on the long service awards (lsa)	651 831	511 000
Effect on the aggregate of the service cost and interest cost - lsa	162 000	133 000
Effect on the long service awards (lsa)	(584 169)	(456 000)
Effect on the aggregate of the service cost and interest cost - lsa	(141 000)	(118 000)

# **King Cetshwayo District Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

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#### **Defined benefits obligations**

An amount of R24 902 449 (2018 - R20 016 817) was contributed by Council towards employment retirement funding. These contributions have been expensed. The Zululand Joint Provident Fund had received a notice of exemption for further valuations per notice number 12/8/37666.

A service benefit in the form of participation in the Zululand Provident Fund (Uthungulu District Municipality) was in existence, whereby the municipality and employees co-contributed towards a provident fund. During the course of previous years, pursuant to ongoing and prior engagements with relevant stakeholders, the municipality ceased participation therein in October 2015. The fund had by 30 June 2016 initiated the appropriate liquidation processes as legislated. A liquidator was duly appointed, the fund liquidated and the draft preliminary accounts were submitted to the Financial Services Board (FSB) on 31 January 2017. The FSB approval was received on 31 January 2017 and advertisements informing members and former members of the funds liquidation had been placed in newspapers. Benefits payments commenced at the beginning of May 2017 and during the 2018/2019 financial year an unclaimed benefit remained. The applications to transfer the unclaimed benefits from the fund to the unclaimed benefit fund have been signed by the administrator however, payment of one unclaimed benefit remained outstanding as the former member's tax reference number was not known to the administrator. The tax details have since been advised and the administrator is in the process of transferring the one remaining unclaimed benefit to an unclaimed benefits fund. Upon the completion of the latter transfer, the finalisation of the liquidation, closure of accounts and the cancellation application will be submitted to the Financial Sector Conduct Authority (FSCA). Due the fact that the fund is in liquidation, no financial statements are required by the FSCA.

Municipal employees have since joined the Old Mutual Group Life scheme from 1 November 2015 which includes family cover, life insurance and group income protection. The municipality and employee each contribute to the scheme based on a percentage of the employees pensionable earnings.

<b>Description of Fund</b>	<b>Last Actuarial Valuation</b>	<b>Total Assets R'000</b>	<b>Total Liabilities R'000</b>
Government Employees Pension Fund	March 2018	1 835 264	1 835 264
KwaZulu-Natal Joint Municipal Provident Fund	March 2018	4 263 275	4 263 275
Natal Joint Municipal Pension Fund (Superannuation Fund)	March 2018	11 800 220	11 800 220
Natal Joint Municipal Pension Fund (Retirement)	March 2018	4 124 799	4 124 799

# King Cetshwayo District Municipality

Annual Financial Statements for the year ended 30 June 2019

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**Figures in Rand**

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### 17. Provisions

#### Reconciliation of provisions - June 2019

	<b>Opening Balance</b>	<b>Additions</b>	<b>Total</b>
Performance bonus	738 079	853 103	1 591 182
Rehabilitation of refuse landfill site	73 569 215	1 586 048	75 155 263
	<b>74 307 294</b>	<b>2 439 151</b>	<b>76 746 445</b>

#### Reconciliation of provisions - June 2018

	<b>Opening Balance</b>	<b>Additions</b>	<b>Utilised during the year</b>	<b>Total</b>
Performance bonus	860 475	447 256	(569 652)	738 079
Rehabilitation of refuse landfill site	70 333 859	3 235 356	-	73 569 215
	<b>71 194 334</b>	<b>3 682 612</b>	<b>(569 652)</b>	<b>74 307 294</b>

Non-current liabilities	<b>75 155 263</b>	<b>73 569 215</b>
Current liabilities	<b>1 591 182</b>	<b>738 079</b>

Performance bonuses are usually paid after the financial year end in arrears as the assessment of eligible employees only takes place after the year. The assessment for the 2017/2018 financial year had not been finalised at 30 June 2019, thus the provision is for two financial years. Provision has been made for all managers with exception of the Municipal Manager and the Chief Operating Officer as the incumbents to the positions have not been in the employ of the municipality for a period greater than three quarters of the current year. Refer to note 24 for individual performance bonus payout's to section 57/56 managers in 2017/2018.

In terms of licensing of the landfill refuse site, the provision for the rehabilitation costs was R75.1 million as at 30 June 2019 to restore the remaining portion's of the old Empangeni and Cell 1 refuse sites at the end of their useful lives. Provision has been made at best estimate determined by a professional engineer at a cost for the current solid waste (Cell 1 & Cell 2) and the old Empangeni Site. Rehabilitation will take place as cells are fully utilised and per the site design of the cells.

**King Cetshwayo District Municipality**  
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<b>18. Revenue from exchange transactions - Service charges</b>		
Sale of water	53 138 355	48 901 753
Solid waste revenue	26 218 252	20 505 111
Sanitation revenue	7 569 424	7 939 034
Cemetery revenue	217 111	224 811
Air quality licenses	40 000	20 000
	<b>87 183 142</b>	<b>77 590 709</b>
<b>19. Revenue from exchange transactions - Rental income</b>		
Parking rental	56 506	53 198
Income from the Uthungulu Financing Partnership	-	446 974
	<b>56 506</b>	<b>500 172</b>
<b><u>2018/2019</u></b>		
The Sub-Lease agreement with the Uthungulu Financing Partnership terminated on 1 October 2018 in accordance with the terms and conditions of the said agreement, with the last distribution being received in 2017/2018.		
<b>20. Revenue from exchange transactions - Interest received</b>		
Outstanding debtors	1 709 971	2 190 416
Bank accounts	11 373 930	12 298 934
External investments	27 884 427	32 149 626
	<b>40 968 328</b>	<b>46 638 976</b>
<b>21. Revenue from non exchange transactions - Transfers and subsidies</b>		
<b>Operating grants</b>		
Levy Replacement Grant	249 115 000	241 742 999
Equitable Share	227 727 000	211 987 001
Department of Water and Sanitation	15 827 680	124 326 695
Department of Co-operative Governance	68 792 609	71 541 792
Department of Public Works Grant	7 762 000	5 032 000
Department of Transport	2 528 000	2 524 039
National Treasury	1 235 568	1 457 000
KwaZulu Natal Department of Co-operative Governance and Traditional Affairs	300 000	828 705
Department of Sport and Recreation	3 813	-
KwaZulu Natal Department of Economic Development Tourism and Environmental Affairs	1 436 739	2 363 260
<b>Capital grants</b>		
Department of Water and Sanitation	101 739 208	49 463 296
Department of Co-operative Governance	97 110 472	96 905 686
KwaZulu Natal Department of Co-operative Governance and Traditional Affairs	1 500 000	-
	<b>775 078 089</b>	<b>808 172 473</b>

**King Cetshwayo District Municipality**  
 Annual Financial Statements for the year ended 30 June 2019

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

Figures in Rand	2019	2018
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**Summary of grants per funder**

**Levy Replacement Grant**

Regional council levies have been discontinued as from 30 June 2006, and the national fiscus has allocated a levy replacement grant to the district municipalities. The levy replacement grant is an interim measure to ensure the financial stability of the district municipalities while National government is currently defining the overall fiscus streams to local government.

**Equitable Share**

In terms of the Constitution, this grant is unconditional and is used to subsidise the provision of basic services to the community. These subsidies includes 6 kilolitre free basic water per household to the entire district with the exception of KZ 282.

**Department of Water and Sanitation**

Balance unspent at beginning of the year: WSIG	-	14 326 695
Conditions met - transferred to revenue - approved rollover from prior year:	-	(14 326 695)
WSIG		
Current year receipts : WSIG	88 300 000	110 000 000
Conditions met - transferred to revenue - WSIG	(64 887 177)	(110 000 000)
Allocation of debtor from prior year : RBIG	-	(16 946 704)
Current year receipts : RBIG	120 000 000	66 410 000
Conditions met - transferred to revenue - RBIG	(52 679 711)	(49 463 296)
	<b>90 733 112</b>	-

Conditions still to be met - remain liabilities (see note 22)

These grants are used for:

- water infrastructure and sanitation projects;
- drought relief and disaster relief programmes, and
- to reduce water and sanitation backlogs and sustain water and sanitation infrastructure.

**Department of Co-operative Governance**

Current year receipts: MIG	167 200 000	173 938 000
Allocation of debtor from prior year: MIG	(1 296 919)	(6 787 440)
Conditions met - transferred to revenue : MIG	(165 903 081)	(168 447 479)
Debtor: MIG - refer to note 5	-	1 296 919
	<b>-</b>	<b>-</b>
	<b>-</b>	<b>-</b>

This grant is used to construct water and sewerage infrastructure as part of the upgrading of informal settlement areas.

**King Cetshwayo District Municipality**  
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<b>Department of Public Works Grants</b>		
Current year receipts: EPWP	7 762 000	5 032 000
Conditions met - transferred to revenue : EPWP	(7 762 000)	(5 032 000)
	-	-

This grant is used to expand job creation efforts in specific focus areas, where labour intensive delivery methods can be maximised. The following areas have been identified:

- basic services infrastructure, including water and sanitation reticulation;
- parks and beautification;
- sustainable land based livelihoods, and
- social services programmes.

**Department of Transport**

Balance unspent at beginning of the year	-	1 041
Conditions met - transferred to revenue - approved rollover from prior year	-	(1 041)
Current year receipts : RRAMS	2 528 000	2 523 000
Conditions met - transferred to revenue: RRAMS	(2 528 000)	(2 523 000)
	-	-

The Department of Transport grant is used to co-ordinate Rural Roads Asset Management Systems, and collect road, bridges and traffic data on municipal road networks in line with the Road Infrastructure Strategic Framework for South Africa.

**National Treasury**

Current year receipts: FMG	1 000 000	1 250 000
Conditions met - transferred to revenue : FMG	(1 000 000)	(1 250 000)
Current year receipts : LG SETA	397 625	207 000
Conditions met - transferred to revenue : LG SETA	(235 568)	(207 000)
	<b>162 057</b>	-

Conditions still to be met - remain liabilities (see note 22)

National Treasury Financial Management grant is used for:

- to promote and support reforms to municipal financial management, and
- the implementation of the Municipal Finance Management Act (Act no. 56 of 2003).

Local Government Sector Education Training Authority grants are used for:

- the up-skilling of municipal staff through various training interventions.

The unspent amount of R162 057 was received from SETA in April 2019 which is after the municipal adjustments budget. The funding is required to be included into the approved budget in order for spending to occur. In this regard the amount will be brought into the 2019/2020 budget.

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Figures in Rand	2019	2018
<b>KwaZulu Natal Department of Co-operative Governance and Traditional Affairs</b>		
Balance unspent at beginning of the year : Drought relief	1 500 000	-
Conditions met - transferred to revenue - approved rollover from prior year :	(1 500 000)	-
Drought relief		
Balance unspent at beginning of the year : Planning Shared Services	-	128 705
Conditions met - transferred to revenue - approved rollover from prior year	-	(128 705)
:Planning Shared Services		
Current year receipts : Planning Shared Services	300 000	400 000
Conditions met - transferred to revenue : Planning Shared Services	(300 000)	(400 000)
Current year receipts : District Growth Development Summit	-	300 000
Conditions met - transferred to revenue : District Growth Development Summit	-	(300 000)
Current year receipts : Drought Relief	-	1 500 000
Current year receipts: Feasibility study to establish a district shared legal service	1 000 000	-
Current year receipts: Expanded Richards Bay Industrial Development Zone	1 000 000	-
	<b>2 000 000</b>	<b>1 500 000</b>

Conditions still to be met - remain liabilities (see note 22)

These grants are used:

- to build capacity within the district in order to perform functions as per legislature;
- for disaster programmes, fire fighting equipment, water service delivery planning, shared services unit and infrastructure
- to supply portable water to specific areas per agreements
- to provide for identified feasibility studies and expansion plans.

**Department of Sports and Recreation**

Balance unspent at beginning of the year	3 813	3 813
Conditions met - transferred to revenue	(3 813)	-
	<b>-</b>	<b>3 813</b>

Conditions still to be met - remain liabilities (see note 22)

The grant received from the Department of Sport and Recreation is used to develop sporting codes within the district. The grant is spent in accordance with the approved business plan.

**KwaZulu Natal Department of Economic Development Tourism and Environmental Affairs**

Balance unspent at beginning of the year	1 436 740	2 500 000
Conditions met - transferred to revenue - approved rollover from prior year	(1 436 740)	(2 363 260)
Current year receipts	-	1 300 000
	<b>-</b>	<b>1 436 740</b>

Conditions still to be met - remain liabilities (see note 22)

The grant received from the Department of Economic Development Tourism and Environmental Affairs is for the development of environmental framework plan and essential oils programmes.

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<b>22. Unspent transfers and subsidies</b>		
<b>Unspent conditional transfers and subsidies comprises of:</b>		
<b>Unspent conditional transfers and subsidies</b>		
Department of Water and Sanitation	90 733 112	-
KwaZulu Natal Department of Co-operative Governance and Traditional Affairs	2 000 000	1 500 000
KwaZulu Natal Department of Economic Development Tourism and Environmental Affairs	-	1 436 740
National Treasury	162 057	-
Department of Sport and Recreation	-	3 813
	<b>92 895 169</b>	<b>2 940 553</b>

**23. Revenue from exchange transactions - Other income**

Insurance claim proceeds	2 002 546	1 857 512
Tender deposits and sale of maps	117 800	801 659
Bursary and SETA refunds	67 105	286 635
Administrative fees	48 140	261 698
Dividends	3 544	3 294
	<b>2 239 135</b>	<b>3 210 798</b>

Dividends:

The municipality was one of numerous municipalities who became shareholders in Sanlam Limited as a result of a demutualisation process undertaken by Sanlam Limited in 1998. The municipality was not aware of the allocation of shares until Sanlam Limited issued a notice for untraceable shareholders. National Treasury through correspondence notified municipalities that Sanlam Limited issued a notice for untraceable shareholders in 2016/2017. In this regard the municipality was issued 1136 shares. Refer to note 12 which outlines the shares.

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Figures in Rand	2019	2018
<b>24. Employee related costs</b>		
Employee related costs - salaries and wages	161 263 638	133 307 788
Employee related costs - contributions for UIF, pensions and medical aid	34 104 463	30 229 007
Travel and vehicle allowances	15 800 798	14 723 266
Overtime and relief payments	6 902 519	7 501 615
Defined employee benefit obligations: post employment medical aid benefits & long service awards	4 223 876	1 569 000
Housing benefits and other allowances	2 714 366	2 851 512
	<b>225 009 660</b>	<b>190 182 188</b>

**Included in employee related costs above are the following salaries, allowances and benefits for the Municipal Manager and Deputy Municipal Managers:**

**Remuneration of Municipal Manager**

Annual remuneration	990 834	-
Backpay	141 548	-
Performance bonuses	-	164 896
Contributions to UIF and other	1 102	149
	<b>1 133 484</b>	<b>165 045</b>

**2018/2019**

The Municipal Manager position was filled in the 2018/2019 financial year. The incumbent commenced duties on 1 November 2018.

**2017/2018**

The contract of the Municipal Manager ended on 30 June 2017 and the incumbent received a performance bonus for the performance outputs achieved in the 2016/2017 financial year, which was paid in the year.

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Figures in Rand	2019	2018
<b>Remuneration of Deputy Municipal Manager - Technical Services</b>		
Annual remuneration	1 150 241	368 654
Acting allowance	51 094	56 817
Backpay	418 616	-
Contributions to UIF, medical aid and other	1 890	12 158
	<b>1 621 841</b>	<b>437 629</b>

**2018/2019**

In the year under review an acting allowance of R51 094 was paid to an incumbent for duties pertaining to the Municipal Manager position for the period 1 July 2018 to 30 October 2018. The position of Municipal Manager was subsequently filled on 1 November 2018. Backpay as approved by Council on 13 December 2018 (KCDMC:1707/2018) was paid to the Deputy Municipal Manager Technical Services in order to align his salary to that of all Section 56 managers. The backpay is for five (5) months of 2017/2018 and six (6) months of 2018/2019.

**2017/2018**

In the year an acting allowance of R56 817 was paid to an incumbent for duties pertaining to the Deputy Municipal Manager: Technical services position. The position was subsequently filled on 1 February 2018.

**Remuneration of Deputy Municipal Manager - Corporate Services**

Annual remuneration	298 479	1 141 410
Annual bonus	82 911	95 118
Acting allowance	67 493	30 945
Travel allowance	91 202	348 764
Performance bonuses	-	104 937
Contributions to UIF and other	621	1 884
	<b>540 706</b>	<b>1 723 058</b>

**2018/2019**

In the year under review the position of Deputy Municipal Manager Corporate Services became vacant on 1 October 2018 and an acting allowance of R67 493 was paid to an incumbent for fulfilling the duties pertaining to the Deputy Municipal Manager Corporate Services Department.

**2017/2018**

In the year an acting allowance of R30 945 was paid to an incumbent for fulfilling the duties pertaining to the Deputy Municipal Manager Corporate Services Department.

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Figures in Rand	2019	2018
<b>Remuneration of Deputy Municipal Manager - Financial Services</b>		
Annual remuneration	1 160 758	1 109 711
Acting allowance	-	61 660
Travel allowance	498 219	483 901
Performance bonuses	-	149 909
Contributions to UIF and other	1 890	1 950
	<b>1 660 867</b>	<b>1 807 131</b>

**2017/2018**

In the year an acting allowance of R61 660 was paid to the incumbent for fulfilling the duties pertaining to the Municipal Manager which had been vacant from 1 July 2017. The incumbent acted for the period 1 January 2018 to 30 June 2018.

**Remuneration of Deputy Municipal Manager - Planning & Economic Development**

Annual remuneration	995 869	150 662
Acting allowance	-	25 872
Backpay	310 449	-
Travel allowance	174 378	-
Contributions to UIF and other	1 890	314
	<b>1 482 586</b>	<b>176 848</b>

**2018/2019**

Backpay as approved by Council on 13 December 2018 (KCDMC:1707/2018) was paid to the Deputy Municipal Manager Planning and Economic Development in order to align her salary to that of all Section 56 managers. The backpay is for two (2) months of 2017/2018 and six (6) months of 2018/2019.

**2017/2018**

In the year an acting allowance of R25 872 was paid to an incumbent for duties pertaining to the Deputy Municipal Manager: Planning and Economic Development position. The position was subsequently filled on 1 May 2018.

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Figures in Rand	2019	2018
<b>Deputy Municipal Manager - Community Services</b>		
Annual remuneration	1 226 544	1 163 426
Acting allowance	81 177	65 845
Travel allowance	236 680	230 299
Performance bonuses	-	149 909
Contributions to UIF, medical, pension and other	207 294	195 429
	<b>1 750 695</b>	<b>1 804 908</b>

**2018/2019**

In the year under review an acting allowance of R81 177 was paid to the incumbent for fulfilling the duties pertaining to the Deputy Municipal Manager Corporate Services Department.

**2017/2018**

In the year an acting allowance of R65 845 was paid to the incumbent for fulfilling the duties pertaining to the Municipal Manager which had been vacant from 1 July 2017. The incumbent acted for the period 1 July 2017 to 31 December 2017.

**Chief Operating Officer**

Annual Remuneration	835 150	-
Travel allowance	120 000	-
Contributions to UIF, medical and pension funds	151 587	-
Arbitration award	3 118 556	-
	<b>4 225 293</b>	-

**2018/2019**

An arbitration award amounting to R3 118 556 was made by the South African Local Government Bargaining Council in favour of a staff member. The subsequent result of the award was reinstatement of the staff member to an equivalent position and the backpay of salary.

**King Cetshwayo District Municipality**  
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Figures in Rand	2019	2018
<b>25. Remuneration of councillors</b>		
Mayor	931 578	868 112
Deputy Mayor	666 581	692 829
Speaker	758 870	722 002
Chief Whip	712 974	675 084
MPAC Chair	665 847	633 648
Executive Committee	4 055 945	4 302 466
Councillors	2 900 556	2 900 918
Councillors' pension contribution	987 132	983 038
	<b>11 679 483</b>	<b>11 778 097</b>

**In-kind benefits**

The Mayor, Deputy Mayor, Speaker, Chief Whip, MPAC Chair and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council, which is included with other expenditure in the statement of financial performance.

The Mayor, Deputy Mayor and Speaker have the use of a Council owned vehicle together with a driver for official duties, and security. Furthermore, personal security is provided for some Exco and Council members based on security assessments, as outlined in the Government Gazette on the Determination of upper limits of salaries, allowances and benefits of municipal councils.

In the year under review, an Exco member passed away in August 2018 and the vacancy was filled in December 2018. In addition and subsequent to the National elections held on 8 May 2019, two members of the Council's Executive committee resigned on 15 May 2019 and 17 May 2019 to take up posts as members of Parliament.

**26. Depreciation, amortisation and impairment**

Property, plant and equipment	73 975 801	69 095 018
Intangible assets	775 079	675 994
	<b>74 750 880</b>	<b>69 771 012</b>

**2017/2018**

Depreciation, amortisation and impairment has been restated by an amount of R707 315 from R69 063 697 to R69 771 012 - refer to note 40

**27. Finance costs**

Interest paid - long term liabilities	5 322 141	6 432 319
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Finance charges relate to the two annuity loans currently held with ABSA and INCA with balances of R24 979 601(2017/2018 - R28 393 087) and R13 553 713 (2017/2018 - R16 068 568) as at 30 June 2019 respectively.

**King Cetshwayo District Municipality**  
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Figures in Rand	2019	2018
<b>28. Bulk purchases</b>		
Water	<b>39 200 886</b>	<b>47 254 675</b>
In the year under review the municipality had lodged a dispute with the bulk water service provider regarding the tariff being applied to the municipality account. In this regard included in the amount of R39 200 886 reflected, the service provider's invoices have been recorded at a lower tariff as outlined in the service provider tariff schedule. The dispute has not yet been resolved however both parties are engaging on the matter. A contingent liability has been recorded on note 38.		
<b>29. Contracted services</b>		
<b>Outsourced Services</b>		
Burial services	386 968	228 210
Business and advisory	1 469 583	1 283 420
Catering services	4 957 925	5 824 771
Call centre	1 664 872	1 634 535
Cleaning services	30 500	-
Hygiene services	43 665 607	109 777 556
Internal auditors	2 290 184	2 260 299
Meter management	18 018	695 511
Medical services (medical health services & support)	82 128	91 800
Professional staff	1 037 643	677 888
Security services	4 803 784	4 470 355
Transport services	612 053	318 583
<b>Consultants and Professional Services</b>		
Business and advisory	4 277 619	8 133 104
Infrastructure and planning	15 443 080	14 017 978
Laboratory services	72 500	96 800
Legal cost	4 648 697	2 254 574
<b>Contractors</b>		
Artists and performers	1 098 833	985 950
Auctioneers	114 000	-
Event promoters	2 982 750	1 841 338
Fire protection	705 397	632 665
Fire services	86 865	198 219
Inspection fees	133 662	271 153
Maintenance and operations	206 618 598	162 408 089
Transportation	57 613 058	54 566 623
Safeguard and security	5 266 330	4 633 326
Sports and recreation	100 000	104 000
Stage and sound crew	566 675	592 730
Exhibit installations	376 296	320 083
	<b>361 123 625</b>	<b>378 319 560</b>

The comparative figure for contracted services has been restated by an amount of R43 002 from R378 276 558 to R378 319 560 - refer to note 40.

**King Cetshwayo District Municipality**  
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Figures in Rand	2019	2018
<b>30. Transfers and subsidies</b>		
<b>Other subsidies</b>		
KZ 282 uMhlathuze Municipality	130 000	-
KZ 284 Umlalazi Municipality	100 000	80 000
Transfers to organisations	5 125 000	4 344 219
KZ 281 Umfolozi Municipality	-	695 500
King Cetshwayo Fresh Produce Market (Pty) Ltd	14 000 000	6 400 000
	<b>19 355 000</b>	<b>11 519 719</b>
<b>31. Operational Costs</b>		
Achievements and awards	50 539	32 835
Advertisements and publicity	6 655 067	7 645 717
Archives	241 345	74 995
Bank charges	184 838	181 103
Bursaries	798 139	742 533
Courier and delivery services	39 045	27 440
Deeds	15 371	10 651
Delegations	283 698	807 156
External audit fees	3 827 583	2 895 361
Insurance	4 934 786	3 149 067
Inventory - materials and supplies	9 495 820	12 551 741
Inventory consumable stores	6 448 222	4 788 225
Landfill site rehabilitation	1 586 048	3 235 361
Licenses	4 178 621	3 974 795
Municipal services	37 087 649	30 590 305
Operating leases	27 374 403	25 060 902
Personal protective equipment	908 331	1 277 037
Personnel agency fees	566 201	264 678
Postage	519 503	513 358
Professional and regulatory bodies fees	2 867 114	2 567 029
Resettlement costs	-	9 134
Skills development levy	1 794 065	1 600 183
Small tools	183 808	126 409
Subsistence and travelling	8 325 291	6 737 563
Telephone	3 301 779	3 429 449
Vehicle tracking services	4 684	6 776
	<b>121 671 950</b>	<b>112 299 803</b>

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Figures in Rand	2019	2018
<b>32. Cash generated from operations</b>		
Surplus	38 971 784	109 128 184
<b>Adjustments for:</b>		
Depreciation, amortisation and impairment	74 750 880	69 771 012
(Gain)/loss on sale/disposal of property, plant and equipment	(265 883)	1 081 313
Fair value adjustments	(47 933)	(42 952)
Debt impairment	8 753 607	5 317 989
Movements in defined employee benefit obligations	4 223 876	1 569 000
Movements in provisions	2 439 151	3 112 960
<b>Changes in working capital:</b>		
Inventories	149 606	(262 243)
Receivables from non exchange transactions	2 310 581	21 133 995
Receivables from exchange transactions - consumer debtors	(10 935 831)	(17 627 845)
Payables from exchange transactions	(21 713 037)	27 026 780
Receivables from exchange transactions - VAT	11 884 729	(11 889 680)
Unspent transfers and subsidies	89 954 616	(14 019 701)
Consumer deposits	46 771	(374 939)
Other non-cash items: Accruals	(7 577 172)	(497 485)
	<b>192 945 745</b>	<b>193 426 388</b>

**33. Commitments**

**Authorised capital expenditure**

**Approved and Contracted for:**

• Infrastructure	466 929 276	336 534 810
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**This expenditure will be financed from:**

• Government grants	466 516 449	336 534 810
• Internal funding	412 827	-
	<b>466 929 276</b>	<b>336 534 810</b>

The outstanding commitments relate to capital projects and other assets that have been committed by order, by the Bid Adjudication Committee and Municipal Manager prior to 30 June 2019.

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Figures in Rand	2019	2018
<b>34. Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- not later than one year	11 748 625	11 548 603
- later than one year and not later than five years	11 699 493	23 038 311
	<b>23 448 118</b>	<b>34 586 914</b>

Operating lease payments represent payments for the leasing of vehicles and commercial property by the municipality. Lease contracts for vehicles are entered into for a three year period and the lease payments are fixed for the lease period with no escalation. A number of the previous lease agreements were extended in the 2016/2017 financial year via section 116 of the Municipal Finance Management Act on a month to month basis. The month to month arrangement ended in 2018/2019 through a phased in delivery period of the new fleet arrangement. The new awarded service provider(KCDM/08/2018) commenced with the provision of vehicles on 1 September 2018. The commercial property leases are for business operations and the lease agreements are usually for a three to four year period.

An amount of R27 374 403 has been recognised in the statement of financial performance for the period ended 30 June 2019.

# King Cetshwayo District Municipality

Annual Financial Statements for the year ended 30 June 2019

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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#### **35. Deviation from supply chain management regulations**

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process. Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that the accounting officer records the reasons for any deviations and reports the said deviations to the next meeting of Council and includes a note to the annual financial statements. All deviations are reported to Council on a quarterly basis with a detailed schedule and reasons thereto.

The deviations greater than R 200 000 are listed individually below for the period ended 30 June 2019.

<b>Project description</b>	<b>R</b>
Training of officials at UKZN - MDP	210 575
Extension of contract vehicle hire	602 000
Provision of security services	450 479
Provision of water tanker services	1 249 366
Extension of the provision of plant hire services	3 556 768
Provision of security services	450 479
Provision of water tanker services	1 272 985
Extension of the provision of plant hire services	1 835 997
Provision of security services	450 479
Provision of water tanker services	1 580 943
Salga games - sports wear	626 175
Extension of the provision of plant hire services	3 820 104
Provision of security services	450 479
Provision of water tanker services	1 800 850
Renewal of software licences - Edocs	283 314
Provision of security services	509 044
Provision of water tanker services	1 259 503
Provision of water tanker services	4 376 001
Salga games - transportation	410 000
Provision of car hire services	217 741
Provision of security services	509 044
Emergency repairs to solid waste site	260 969
Provision of water tanker services	1 315 222
Provision of water tanker services	1 143 368
Provision of security services	509 044
Extension of the provision of plant hire services	3 317 842
Provision of security services	509 044
Provision of water tanker services	3 113 343
Provision of water tanker services	3 842 013
Provision of security services	509 044
Extension of contract vehicle hire	320 498
Extension of the provision of plant hire services	1 944 805
Provision of water tanker services	735 731
Provision of water tanker services	494 449
Provision of water tanker services	1 404 002
Provision of water tanker services	3 030 683
Training of officials at SUMMAT - MFMP	232 645
Training of officials at SUMMAT - MFMP	209 760
Provision of security services	509 044
Provision of water tanker services	2 145 653
Provision of water tanker services	1 049 417
Provision of services to Melmoth waste treatment works	7 593 957
Provision of services to Thubalethu sewer reticulation	19 982 628
Provision of security services	509 044

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Extension of the provision of plant hire services	330 142
Provision of water tanker services	5 507 296
Provision of water tanker services	386 710
Provision of services - IMQS	263 120
Provision of furniture	272 406
Provision of events related service - Church disaster mass memorial	287 247
Extension of the provision of plant hire services	1 168 785
Provision of security services	509 044
Provision of SODA event related services	690 771
Provision of water tanker services	6 526 453
Provision of water tanker services	2 897 855
Provision of water tanker services	2 017 800
Provision of water tanker services	509 809
Provision of water tanker services	858 643
Provision of water tanker services	208 755
Management of rural fire emergency services	745 200
Provision of water tanker services	3 782 041
Provision of water tanker services	2 635 917
Provision of water tanker services	2 152 800
Purchase of disaster vehicles	1 554 080
Total deviations less than R 200 000 aggregated	5 530 127
<b><u>119 439 532</u></b>	

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# **King Cetshwayo District Municipality**

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#### **36. Awards to close family members of persons in the service of the state**

Paragraph 45 of the Municipal Finance Management Act, 2003(Act no. 56 of 2003); Municipal Supply Chain Management Regulations states that the particulars of any award more than R 2 000 made to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve(12) months must be disclosed as a note in the financial statements.

The details are listed below for the year ended June 2019:

Name of person	T Jordan
Relation	Spouse
Capacity	Deputy Manager: Development Administration - Umhlathuze Local Municipality
Service Provider	Audio Computer World
Number of transactions	67
Total Amount	R1 017 267
 Name of person	 IN Mpungose
Relation	Spouse
Capacity	Principal - Hlambane High School
Service Provider	Mpungose holdings
Number of transactions	1
Total Amount	R165 000
 Name of person	 N. Reddy
Relation	Spouse
Capacity	Prosecutor - NPA Verulam Court
Service Provider	Fana Manufacturing cc
Number of transactions	117
Total Amount	R3 686 235
 Name of person	 Mrs Msomi and Miss Msomi
Relation	Spouse and daughter
Capacity	Department of Education and EThekweni municipality
Service Provider	Ngubane and Co
Number of transactions	27
Total Amount	R2 767 328
 Name of person	 Z Buthelezi
Relation	Mother
Capacity	Librarian - Umhlathuze Local Municipality
Service Provider	Zidane Management Tradings
Number of transactions	15
Total Amount	R1 114 524

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<b>37. Additional disclosure in terms of Municipal Finance Management Act No 56 of 2003</b>		
<b>Contributions to organised local government</b>		
Current year membership fee	2 361 083	1 985 150
Amount paid - current year	(2 361 083)	(1 985 150)
	-	-
<b>Audit fees</b>		
Current year fee	3 781 905	2 859 184
Amount paid - current year	(3 781 905)	(2 859 184)
	-	-
<b>PAYE and UIF</b>		
Current year subscription / fee	39 017 235	31 768 532
Amount paid - current year	(39 017 235)	(31 768 532)
	-	-
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	30 411 437	24 949 856
Amount paid - current year	(30 411 437)	(24 949 856)
	-	-
<b>VAT</b>		
VAT receivable	<b>47 347 498</b>	<b>59 232 227</b>
<b><u>2018/2019</u></b>		
All VAT 201 returns have been submitted by the due date throughout the 12 months. The VAT 201 returns for the months of May 2019 to June 2019 had not yet been settled as at 30 June 2019, however the May 2019 return was subsequently settled by SARS in July 2019.		
<b><u>2017/2018</u></b>		
All VAT 201 returns have been submitted by the due date throughout the 12 months. The VAT 201 returns for the months of March 2018 to June 2018 had not yet been settled as at 30 June 2018, however the March 2018 return was subsequently settled by SARS in July 2018.		
<b>Councillors arrear consumer accounts</b>		
At the reporting date no Councillors had arrear accounts outstanding for more than 90 days.		

**King Cetshwayo District Municipality**  
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<b>38. Contingent liabilities</b>		
<b>A - Legal matters - Future legal fees and other</b>		
1. Ex-employee 1 - legal action pending	600 000	600 000
2. Consulting engineers 1 - legal matter pending	300 000	300 000
3. Contractor 1 - legal matter pending	250 000	250 000
4. Service provider 1 - legal action pending	40 000	40 000
6. Employees 9 - legal matter finalised	-	444 482
7. Employee 10 - legal matter finalised	-	150 000
8. Employee 11 - legal matter finalised	-	200 000
9. Service provider 2 - legal action pending	105 584	65 584
10. Debtor 1 - legal action pending	100 000	100 000
11. Public member 1 - legal action pending	<u>150 000</u>	<u>-</u>
	<u>1 545 584</u>	<u>2 150 066</u>

**1. Ex-employee 1 - legal action pending**

The municipality has taken legal action against an ex-employee who made an illegal investment. The matter is being dealt with by the high court. The appointed legal team has commenced with pre-trial preparations with the appointed advocate. Trial dates are pending.

**2. Consulting engineers 1 - legal matter pending**

This matter refers to a dispute with a consulting engineering firm and relates to the consultant increasing the scope of work of a project without obtaining prior approval from the municipality. The matter is a high court claim and the matter is ready for trial and on the trial awaiting list.

**3. Contractor 1 - legal matter pending**

The municipality has taken legal action against a contractor for non performance and relates to the claim referred to in point 2 above. The matter is with the high court, however it may not come before the court as it is our legal teams view that the Consultant is liable for all costs.

**4. Service provider 1 - legal action pending**

This is a high court claim in which an order of re-payment was obtained against the service provider.

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### **5. Employees 2 & 3 - legal matter finalised**

This matter refers to an application for a review of an arbitration award made in favour of the municipality. The application for review has been finalised by the court and the Judge has given his ruling which was in the favour of the municipality. SAMWU on behalf of its members had referred the matter for review. The review argument has been finalised. The judge's ruling has been issued in favour of the municipality and a cost order was issued against the employees in favour of the municipality.

### **6. Employee 9 - legal matter finalised**

This matter has been settled out of court.

### **7. Employee 10 - legal matter finalised**

This matter has been settled out of court.

### **8. Employee 11 - legal matter finalised**

This matter has been settled out of court.

### **9. Service provider 2 - legal action pending**

The matter refers to a civil litigation suite based on a repudiation of a contract to supply certain services to the municipality. The service provider has instituted action against King Cetshwayo District Municipality at Durban High Court for an original R11m claim. The Plaintiff has since amended its particulars of claim to R3 ,750 ml. The defendants had in turn delivered a plea wherein a special plea had been raised together with a counter claim seeking an order to declare the purported contract unlawful. Furthermore, the plaintiff has so far failed to plead to the defendants counter claim.

### **10. Debtor 1 - legal action pending**

This is a dispute between the Home Owners Association and the Municipality regarding a contractual matter with regards to the responsibility of the reticulation system within the estate.

### **11. Public member 1 - legal action pending**

This is a claim for damages arising from a motor vehicle collision between a Council employee and a member of the public. Pleadings have been closed and the plaintiff is to set the matter down for trial.

The contingent liabilities with associated estimated legal fees and other costs of R1 545 584 mentioned above is generally costs associated with the litigation process and any resultant claims cannot be quantified.

# King Cetshwayo District Municipality

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#### B - Dispute with bulk water service provider 1

In the year under review the municipality had lodged a dispute with the bulk water service provider regarding the tariff being applied to the municipality's account. In this regard the applicable invoices raised by the service provider have been recorded at a lower tariff as outlined in the service provider's published tariff schedule. The dispute has not yet been resolved however both parties are engaging on the matter. A contingent liability has been disclosed amounting to R14 575 193.

#### C - Dispute with the Department of Water and Sanitation (DWS)

A dispute has arisen between the municipality and the DWS with regard to charges which have been levied by the department against the municipality pertaining to raw water abstraction.

The dispute has arisen due to the department charging the municipality for water abstracted from the abstraction points under the control of the municipality, when no water was available due to the ongoing drought in the region. The municipality believes that it should not be charged for water that could not be delivered due to the drought. Emanating from numerous meetings with DWS, the department has requested the municipality to make a formal application to the department, requesting the reversal of all interest charges, the crediting of the erroneous invoices, and the substitution of corrected invoices based on actual water abstracted from the various abstraction points. The readings have been forwarded to the department for the process to be concluded. A contingent liability has been disclosed amounting to R29 787 574.

In light of the above, an accrual has been made on the basis of the application being accepted by the department.

#### D - Dispute with bulk water service provider 2

In the year under review, the municipality was contacted by a bulk water service provider, with regards to a water abstraction point, which the service provider had not been charging the municipality for. The municipality had made several attempts during the year to contact the service provider with regards to this abstraction point, but no response was received from the service provider until late June 2019. The municipality based on historical charges, has made an accrual for the charges, but the service provider has now levied a charge based on volumes and tariffs which the municipality is disputing. A meeting has been held to discuss and find a resolution to the matter, and further meetings are expected. A contingent liability has been disclosed amounting to R3 677 177.

The tables below outlines the contingent liability as listed above.

#### B - Dispute with bulk water service provider 1

	R
Total raised by service provider 1	56 939 856
Total paid by municipality	(42 364 663)
	<b>14 575 193</b>

#### C - Dispute with the Department of Water and Sanitation (DWS)

	R
Total invoices raised by DWS	54 913 741
Less: Contingent liability - Pre 2012 invoices to be credited by DWS as per motivational correspondence from Provincial Treasury	(7 554 689)
Less: Contingent liability - interest to be reversed on disputed invoices	(8 160 914)
Accrued expenses	(9 410 564)
	<b>29 787 574</b>

#### D - Dispute with bulk water service provider 2

	R
Total raised by service provider 2	5 377 177
Accrued expenses	(1 700 000)
	<b>3 677 177</b>

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**39. Related parties**

Relationships

Municipal entities  
 The uThungulu Financing Partnership  
 uThungulu House Development Trust  
 King Cetshwayo Fresh Produce Market (Pty) Ltd

**Related party balances**

**Investment in municipal entities**

uThungulu House Development Trust	725 877	687 134
King Cetshwayo Fresh Produce Market (Pty) Ltd	1 000	1 000

**Income received from related parties**

The uThungulu Financing Partnership	-	446 974
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**% Interest in municipal entities**

The Uthungulu Financing Partnership	-	99
uThungulu House Development Trust	100	100
King Cetshwayo Fresh Produce Market (Pty) Ltd	100	100

**Transfers and subsidies**

King Cetshwayo Fresh Produce Market (Pty) Ltd	14 000 000	6 400 000
uMlalazi Municipality	100 000	80 000
uMfolozi Municipality	-	695 500
uMhlathuze Municipality	130 000	-

**Related party transactions**

**Sub - lease payments**

The uThungulu Financing Partnership	-	441 972
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The uThungulu Financing Partnership was a partnership between King Cetshwayo District Municipality , NIB9810 Trust and Nedcor. King Cetshwayo District Municipality as at 30 April 2008 held 99% and Nedcor and NIB9810 held the balance of 1%. The uThungulu Financing Partnership was formed to facilitate the purchase of the King Cetshwayo House in order to provide offices for King Cetshwayo District Municipality. In order to finance the purchase of the King Cetshwayo house, the partnership entered into a loan agreement with Nedcor. In terms of the sub lease agreement, King Cetshwayo District Municipality was obliged to make bi-annual sub payments to the partnership to reimburse uThungulu Financing Partnership the loan repayments made to Nedcor. The loan was payable over a 20 year period (commencing in 1998 and ended in 2017).

uThungulu House Development Trust leases immovable property to the uThungulu Financing Partnership in terms of a financing lease. The original lease period expired on 31 October 2017.

The municipality has consulted Council's attorneys regarding the different options in terms of the dissolution of the Trust. Council has taken a resolution to dissolve the Trust and the subsequent processes was initiated in the financial year under review.

The Council embarked on the establishment of an entity known as the King Cetshwayo Fresh Produce Market (Pty) Ltd (formerly known as the uThungulu Fresh Produce Market (Pty) Ltd, which was incorporated on 23 June 2015 and commenced activities on 1 July 2015 (previously dormant). The municipality has taken cognisance that the King Cetshwayo Fresh Produce Market (Pty) Ltd has encountered challenges around being a going concern and as such has commissioned processes to determine the impact and dissolution of the Entity.

The above mentioned entities are incorporated in South Africa.

# **King Cetshwayo District Municipality**

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#### **40. Prior-year adjustments**

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice and the aggregate effect of the prior year adjustments in the annual financial statements for the period ended 30 June 2019 presented below are items contained in the statement of financial position, statement of financial performance, and statement of changes in net assets that have been affected by prior-year adjustments:

##### **Adjustments to Inventory**

In the 2016/2017 financial year Council had written off water meters amounting to R4 268 825 prior to the closure of the financial year. Meters with a value of R43 002 were issued from the stores in error in 2016/2017 and subsequently returned and were then reversed by a journal entry in the 2017/2018 financial year. Due to the migration of the MSCOA, the physical write off of the meters from the stock file was rolled over and the journal to ledger effected. The correction journal has been effected to ensure that the stores sub ledger and general ledger are in balance.

##### **Adjustments to property, plant and equipment**

In the current financial year the municipality accounted for prior year corrections to assets under construction, infrastructure, other assets and depreciation as follows:

a) Infrastructure assets and other assets with a value of R4 187 605 and R2 463 965 respectively were completed in the previous financial years and transferred from assets under construction. The total amount transferred from assets under construction amounted to R6 651 570. The amount of R6 651 570 pertains to the 2017/2018 opening balance adjustment of R6 011 760 and an adjustment of R639 810 in the 2017/2018 financial year.

b) Depreciation on completed assets outlined in (a) above have been adjusted by R336 165 (R6 011 760) for the opening balance of 2017/2018 and R166 899 (R6 651 570) for depreciation in 2017/2018 financial year.

B) Depreciation adjustments on fully depreciated assets still in use by the municipality, have been effected amounting to R2 081 650 on the opening balance for 2017/2018 financial year and R540 415 for depreciation in the 2017/2018 financial year.

The cumulative effect on the statement of position, performance and changes in net assets is outlined below:

##### **Statement of financial position**

###### **2017/2018**

	<b>Note</b>	<b>As previously reported</b>	<b>Prior year adjustment</b>	<b>Restated</b>
Effect on current assets - Inventories as at 30 June 2018	2	6 036 170	(43 002)	5 993 168
Effect on non current assets - Property, plant and equipment as at 30 June 2018	8	2 278 977 824	878 709	2 279 856 533
Effect on non current assets - Intangible assets as at 30 June 2018	9	4 028 808	159 464	4 188 271

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**Statement of financial performance**

**2017/2018**

	Note	As previously reported	Prior year adjustment	Restated
Effect on depreciation, amortisation and impairment for the year ended 30 June 2018	26	69 063 697	707 315	69 771 012
Effect on contracted services for the year ended 30 June 2018	29	378 276 558	43 002	378 319 560
Effect on surplus for the year ended 30 June 2018		109 878 501	(750 317)	109 128 184

**Statement of changes in net assets**

**2017/2018**

	As previously reported	Prior year adjustment RUL	Prior year depreciation depreciation completed assets	Prior year adjustment inventories	Restated
Balance as at 1 July 2017	2 373 561 553	2 081 650	(336 165)	-	2 375 307 041
Balance as at 1 July 2018	2 483 440 055	1 541 235	(503 063)	(43 002)	2 484 435 225

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# **King Cetshwayo District Municipality**

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## **NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

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#### **41. Budget and Actual amount variances**

Variances greater than 10 % with a value not less than R500 000 as referenced on The Statement of Comparison of Budget and Actual amounts, as reflected on page 9 to page 11 are set out below:

##### **Statement of financial performance**

###### **41.1 Other income**

The variance between the budget and actual amounts are attributable mainly to the insurance refunds expected, decrease in tender deposits sales and the disclosure of proceeds from the sale of property, plant and equipment. The insurance refunds are based on estimates and depends on claims submitted. In terms of the tender deposits a decrease in sales was impacted by the fact that service providers can now access the document on line. The proceeds from the sale of property, plant and equipment is budgeted under other income, however disclosed separately in the annual financial statements.

###### **41.2 Transfers and subsidies**

The variance between the budget and actual amounts are attributable mainly to the challenges experienced in the roll out of infrastructure projects within the district, thus not spending the full grant allocations received from funders in order to recognise the revenue.

###### **41.3 Depreciation, amortisation and impairment**

The variance between the budget and actual amounts are attributable to the municipality budgeting for an increase in completed projects.

##### **Statement of financial position**

###### **41.4 Inventories**

The variance is attributable to the prudent setting of minimum stock holdings thereby ensuring inventory is available for projects as well as ensuring that working capital is not tied up unnecessarily.

###### **41.5 Receivables from exchange transactions - consumer debtors and VAT**

The variance is mainly attributable to the increase in outstanding debtors in the category of commercial consumers and constant outstanding domestic debtors. The increase in these consumer categories is as a result of economic pressures which negatively impacts the ability of poorer households to settle their municipal accounts as well as business being impacted by poor consumer spending. Furthermore departments do not settle their municipal accounts timeously.

The budget assumption for VAT receivable is that SARS will refund VAT claimable in a timely manner and thus no budget allocation is assigned thereto.

###### **41.6 Receivables from non exchange transactions**

The variance is mainly attributable to unanticipated non exchange transactions not being adequately budgeted for.

# **King Cetshwayo District Municipality**

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#### **41.7 Cash and cash equivalents**

The municipality budgeted to have a bank account balance of R57 407 400 and an investment holding of R350 000 000, however the cash book and investment holding as at 30 June 2019 amounted to R145 579 495 and R350 000 000 respectively. The variance is as a result of cash backing of provisions, transfers, subsidies and accumulated depreciation to a limited extent.

#### **41.8 Property, plant, equipment and intangible assets**

The variance is mainly attributable to the net carrying values in the budget not being updated with the audited outcomes and therefore increasing the estimated net carrying value for the year under review as well as the impact of not fully expending capital budgets.

#### **41.9 Investments in municipal entities**

The variance is attributable to the timing of the finalisation of the dissolution of the Uthungulu House Development Trust which the exact timing thereof is difficult to estimate accurately. The final distribution to be received upon the dissolution of the Uthungulu House Development Trust.

#### **41.10 Payables from exchange transactions**

The variance is attributable to an increase in spend on capital project towards the latter part of the year, related accruals, which is difficult to estimate accurately.

#### **41.11 Consumer deposits**

The variance is mainly attributable to an amendment in the indigent policy which has lead to many consumers becoming eligible for indigent benefits, one of the benefits being the exemption from levied deposits. Furthermore a number of consumers moved from a conventional meter to a prepaid meter and thus only a minimum deposit was applied.

#### **41.12 Defined employee benefit obligations - current and non current**

The variance is attributable to assumed variables and demographical profiles of membership which actuarial valuations are based on, and these estimates are only calculated at year end, furthermore the amendment to the long service award scheme, wherein employees are now entitled to an award after 5 years of service as well as a pro rata award on exit, has resulted in a past service cost been valued in the 2018/2019 financial year.

#### **41.13 Unspent transfers and subsidies**

The municipality budgeted on fully expending grant allocations received for the year, however an amount of R92 895 169 remained unspent at year end. The variance is attributable mainly to the challenges experienced in the roll out of infrastructure projects within the district, thus not spending the full grant allocations received from funders.

#### **41.14 Provisions - non current**

The non current provision includes the yearly assessment of the rehabilitation of the landfill site. The calculation is performed by a professional engineer at year end, and as such the costs are difficult to estimate accurately due to inflation and other economic factors used in the calculation.

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**Cash flow statement**

41.15 Payment for property, plant and equipment

The variance between budget and actuals is attributable the fact that the budget includes VAT on grants and accruals, as well as the challenges referred to in point 41.2 above.

41.16 Proceeds from insurance and sale of property, plant and equipment

The proceeds from the sale of property, plant and equipment is budgeted under other income, however disclosed separately in the annual financial statements.

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<b>42. Unauthorised, Fruitless, Wasteful and Irregular expenditure</b>		
Opening balance - Irregular Expenditure	-	-
Add: Irregular Expenditure	5 066 537	-
<b>Closing balance</b>	<b>5 066 537</b>	-

During the year under review irregular expenditure incurred by the municipality was brought to light during a review of overtime paid by the municipality. The expenditure incurred was caused by the payment of overtime to members of staff per an approved Council policy, who were earning above the legislated threshold as applicable under the Basic Conditions of Employment Act. The approved Council overtime policy did identify certain staff as being emergency and related workers, however there was no exemption applied for.

The matter was reported to Council through item: KCDCM: 1881/2019, it was noted that no application for exemption for the approval of overtime to be paid to staff over the threshold was done. Furthermore the said payments of overtime to staff were made in good faith, with no intention to prejudice Council, or to afford undue benefit to employees. The overtime was required to ensure continued operations so to delivery services. The matter has been referred to Municipal Public Accounts Committee for an investigation.

The matter has also been reported to the Office of the Auditor General, National Treasury, Provincial Treasury and the Provincial Department of Cooperative Governance and Traditional affairs on 17 May 2019 and 4 June 2019.

**Unauthorised expenditure: Budget overspending**

Water management- contracted services	21 501 205	-
<hr/>		
The amount of R21 501 205 recorded at an expenditure type level of contracted services (R18 689 877 expenditure recorded at a vote level and R40 460 289 expenditure recorded at an account level) disclosed above for unauthorised expenditure relates to support service agent expenditure transactions incurred for the maintenance and operations of water and sanitation infrastructure within the district. In terms of Municipal Finance Management Act No. 56 of 2003 section 32, the municipal manager has informed the Honourable Mayor of the identified expenditure and has commissioned the processes as outlined in the MFMA and National Treasury circular 68.		

The matter has also been reported to the Office of the Auditor General, National Treasury, Provincial Treasury and the Provincial Department of Cooperative Governance and Traditional affairs on 21 August 2019.

# King Cetshwayo District Municipality

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### **43. Water distribution losses**

The Department of Water and Sanitation considers any losses below that of 25 % as an acceptable norm. The calculated loss of 23.4% is therefore considered acceptable. The Technical Department has, during the course of 2017/2018, appointed consultants on a multi year project to address water loss management within King Cetshwayo District Municipality, this project is aimed at reducing losses further. The 23.4% represents 611 030 kl which equates to R6 296 270 excl. vat, based on 2018/2019 approved tariffs.

### **44. Risk management**

#### **Capital risk management**

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns and benefits for all stakeholders, while delivering sustainable services and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the long-term liabilities as disclosed in note 13, cash and cash equivalents disclosed in note 7, and equity as disclosed in the statement of financial position.

#### **Gearing ratios**

The gearing ratio as at June 2019 and June 2018 restated respectively were as follows:

##### **Total borrowings**

Long term liabilities	13	38 533 313	44 461 655
Less: Cash and cash equivalents	7	495 583 295	498 282 726
Net cash		(457 049 982)	(453 821 071)
Total equity		2 523 407 009	2 484 435 225
<b>Total capital</b>		<b>2 066 357 027</b>	<b>2 030 614 154</b>
		1,86%	2,19%

The comparative figure for total equity for 2017/2018 has been restated by an amount of R995 170 from R2 483 440 055 to R2 484 435 225. Refer to note 40.

#### **Financial risk management**

##### Financial Risk Management Objectives

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. The municipality's financial services function monitors and manages the financial risks relating to the operation of the municipality. These risks include credit risk and liquidity risk.

##### **Liquidity risk**

Liquidity risk refers to the ability of an entity to meet its obligations associated with financial liabilities.

The municipality's liquidity risk pertains to whether funds are available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit obligations.

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Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored. The liquidity ratio is outlined below:		
Current assets	604 910 565	619 767 272
Current liabilities	347 555 631	277 444 997
	1,74:1	2,23:1

**Interest rate risk**

The municipality limits its exposure to interest rate fluctuations by only dealing with well-established institutions and opting for fixed interest rates rather than variable rates.

**Credit risk**

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. Debtors comprise of mainly water, sanitation and refuse users, dispersed across different industries and geographical areas. Ongoing evaluations are performed on the financial condition of these debtors and have been presented in these financial statements net of a provision for impairment. In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", which ever procedure is applicable in terms of Council's credit control and debt collection policy.

Financial assets exposed to credit risk as at year end were as follows:

<u>Financial instrument</u>		
Investments	350 000 000	350 000 000
Cash and cash equivalents	145 583 295	148 282 726
Receivables from exchange and non exchange transactions	103 430 520	115 443 606

**45. Going concern**

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus of R2 523 407 009 and that the municipality's total assets exceed its liabilities by R2 523 407 009.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business, dependant on the receiving of equitable share allocations.

**46. Events after the reporting date**

At the date of submission of the annual financial statements there were no known adjusting events.

**APPENDIX A**  
**KING CETSHWAYO DISTRICT MUNICIPALITY: SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2019**

Redeemable Date	Balance at 30 June 2018 R	Received during the period R	Redeemed written off during the period R	Balance at 30 June 2019 R
<b>ANNUITY LOAN</b>				
INCA @ 11.95%	30/06/2023	16,068,568	2,514,855	13,553,713
ABSA @ 12.6%	30/06/2024	28,393,086	3,413,486	24,979,600
		<b>44,461,654</b>	-	<b>5,928,341</b>
				<b>38,533,313</b>
<b>TOTAL EXTERNAL LOANS</b>				
ANNUITY LOAN		44,461,654	-	5,928,341
		<b>44,461,654</b>	-	<b>5,928,341</b>
				<b>38,533,313</b>

APPENDIX B KING CETSHWAYO DISTRICT MUNICIPALITY - ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2019													
ASSET SUB CATEGORY		HISTORICAL COST							ACCUMULATED DEPRECIATION, IMPAIRMENT LOSSES & TRANSFERS				
Asset Group Type	Opening Balance	Additions	Additions WIP	Capitalised WIP	Disposals	Transfer Cost	Closing Balance	Opening Balance	Additions	Accumulated Impairment	Disposals	Closing Balance	
HERITAGE ASSET	898,895,279	-189,721,679	-	5,992,346	-	-	896,559,765	-189,487	-47,954	-	-	-237,441	896,322,324
Heritage Asset	700,000	-	-	-	-	-	700,000	-	-	-	-	-	700,000
<b>Sub Total</b>	<b>700,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>700,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>700,000</b>
COMPUTER SOFTWARE													
Backup	9,592	-	-	-	-	-	9,592	-8,720	-872	-	-	-	-9,592
DESKTOP	92,800	-	-	-	-	-	92,800	-77,333	-7,733	-	-	-	-85,067
HUMMINGBIRD	227,083	-	-	-	-	-226,528	-	555	-227,063	-7	-	226,528	-541
Identity Manager	287,968	-	-	-	-	-	287,968	-116,203	-29,031	-	-	-	-145,234
Software	5,719,299	593,082	-	-	-535,716	-	5,776,664	-1,721,209	-736,751	-	437,041	-2,020,918	3,755,746
Servers	8,911	-	-	-	-	-	8,911	-6,855	-685	-	-	-	-7,540
<b>Sub Total</b>	<b>6,345,653</b>	<b>593,082</b>	<b>-</b>	<b>-</b>	<b>-762,244</b>	<b>-</b>	<b>6,176,490</b>	<b>-2,157,383</b>	<b>-775,079</b>	<b>-</b>	<b>663,569</b>	<b>-2,268,892</b>	<b>3,907,598</b>
COMMUNITY FACILITIES													
Cemeteries / Crematoria	14,840,802	-	-	-	-	-	5,992,346	20,833,148	-2,868,505	-700,848	-	-	-3,569,353
<b>Sub Total</b>	<b>14,840,802</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,992,346</b>	<b>20,833,148</b>	<b>-2,868,505</b>	<b>-700,848</b>	<b>-</b>	<b>-</b>	<b>-3,569,353</b>
SANITATION INFRASTRUCTURE													
Pump stations	51,906,496	-	-	-	-	-	51,906,496	-35,727,709	-1,905,093	-	-	-	-37,632,801
Refilcation	24,081,994	-	-	-	-	-	24,114,224	-7,338,017	-457,214	-	-	-	-7,795,231
Toilet facilities	24,029	-	-	-	-	-	24,029	-18,340	-2,304	-	-	-	-20,644
Waste-water treatment works (WWTW)	17,916,245	-	-	-	-	-	17,916,245	-6,811,027	-386,820	-	-	-	-7,197,847
<b>Sub Total</b>	<b>93,928,764</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,230</b>	<b>93,960,994</b>	<b>-49,895,093</b>	<b>-2,751,431</b>	<b>-</b>	<b>-</b>	<b>-52,646,523</b>
SERVITUDES													
Servitudes	61,683	-	-	-	-	-	61,683	-	-	-	-	-	61,683
<b>Sub Total</b>	<b>61,683</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>61,683</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>61,683</b>
SOLID WASTE													
Landfill sites	30,349,175	-	-	-	-	-	30,349,175	-27,309,786	-1,011,474	-	-	-	-28,321,260
<b>Sub Total</b>	<b>30,349,175</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,349,175</b>	<b>-27,309,786</b>	<b>-1,011,474</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-28,321,260</b>
SOLID WASTE													
WATER INFRASTRUCTURE													
Borehole	75,624,440	95,733	-	-	-	-2,697,257	78,417,430	-41,153,985	-2,884,774	-688,516	-	-	-44,727,275
Bulk mains	325,694,737	-	-	-	-	-	325,694,737	-33,840,142	-10,054,948	-	-	-	-43,895,090
Dams and weirs	3,436,240	146,050	-	-	-	-	3,582,290	-2,225,119	-152,753	-528	-	-	-2,378,400
Distribution	702,766,530	3,903,980	-	-	-	-	103,464,196	810,134,706	-207,054,183	-31,512,199	-10,413	-	-238,574,795
Pump stations	120,611,617	131,068	-	-	-	-	365,730	121,108,415	-22,160,476	-5,136,834	-1	-	-27,297,311
Reservoirs	244,603,089	626,612	-	-	-	-	73,626,900	318,856,601	-36,458,155	-5,907,244	-7,080	-	-42,372,480
Water treatment works (WTW)	144,097,212	585,792	-	-	-	-	3,543,021	148,226,026	-29,583,239	-4,310,612	-27,010	-	-33,920,861
<b>Sub Total</b>	<b>1,616,833,865</b>	<b>5,489,235</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>183,697,104</b>	<b>1,806,020,205</b>	<b>-372,475,299</b>	<b>-59,959,364</b>	<b>-733,548</b>	<b>-</b>	<b>-433,168,212</b>
COMPUTER EQUIPMENT													
Computer Equipment	14,146,717	1,474,289	-	-	-2,170,106	-	13,450,900	-8,192,941	-2,132,629	11,960	1,794,941	-8,518,669	4,932,231
<b>Sub Total</b>	<b>14,146,717</b>	<b>1,474,289</b>	<b>-</b>	<b>-</b>	<b>-2,170,106</b>	<b>-</b>	<b>13,450,900</b>	<b>-8,192,941</b>	<b>-2,132,629</b>	<b>11,960</b>	<b>1,794,941</b>	<b>-8,518,669</b>	<b>4,932,231</b>
FURNITURE													
Furniture	6,922,957	611,052	-	-	-417,443	-	7,116,566	-3,986,515	-688,883	83	340,754	-4,334,561	2,782,005
<b>Sub Total</b>	<b>6,922,957</b>	<b>611,052</b>	<b>-</b>	<b>-</b>	<b>-417,443</b>	<b>-</b>	<b>7,116,566</b>	<b>-3,986,515</b>	<b>-688,883</b>	<b>83</b>	<b>340,754</b>	<b>-4,334,561</b>	<b>2,782,005</b>
HOUSING													
Staff Housing	192,474	23,981	-	-	-	-	216,454	-124,772	-6,636	-	-	-	-131,408
<b>Sub Total</b>	<b>192,474</b>	<b>23,981</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>216,454</b>	<b>-124,772</b>	<b>-6,636</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-131,408</b>
MOTOR VEHICLE													
Motor Vehicle	16,966,288	1,497,170	-	-	-	-	18,463,458	-5,819,527	-2,031,076	-	-	-	-7,850,602
<b>Sub Total</b>	<b>16,966,288</b>	<b>1,497,170</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,463,458</b>	<b>-5,819,527</b>	<b>-2,031,076</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-7,850,602</b>
OFFICE EQUIPMENT													
Office equipment	8,427,194	838,203	-	-	-636,053	-	8,629,344	-4,997,076	-1,288,891	-	540,707	-5,745,260	2,884,085
<b>Sub Total</b>	<b>8,427,194</b>	<b>838,203</b>	<b>-</b>	<b>-</b>	<b>-636,053</b>	<b>-</b>	<b>8,629,344</b>	<b>-4,997,076</b>	<b>-1,288,891</b>	<b>-</b>	<b>540,707</b>	<b>-5,745,260</b>	<b>2,884,085</b>
OPERATIONAL BUILDINGS													
Municipal Offices	65,892,700	111,605	-	-	-	-	66,004,305	-16,812,362	-1,880,622	-	-	-	-18,692,984
Stores	5,361,052	-	-	-	-	-	5,361,052	-1,741,125	-171,665	-	-	-	-1,912,791
<b>Sub Total</b>	<b>71,253,752</b>	<b>111,605</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>71,365,357</b>	<b>-18,553,487</b>	<b>-2,052,287</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-20,605,775</b>
PLANT AND EQUIPMENT													
Plant and Equipment	3,104,942	270,660	-	-	-159,135	-	3,216,466	-1,654,880	-570,781	-	108,761	-2,116,900	1,099,566
<b>Sub Total</b>	<b>3,104,942</b>	<b>270,660</b>	<b>-</b>	<b>-</b>	<b>-159,135</b>	<b>-</b>	<b>3,216,466</b>	<b>-1,654,880</b>	<b>-570,781</b>	<b>-</b>	<b>108,761</b>	<b>-2,116,900</b>	<b>1,099,566</b>
Intangible Assets Total	<b>6,345,654</b>	<b>593,082</b>	<b>-</b>	<b>-</b>	<b>-762,244</b>	<b>-</b>	<b>6,176,491</b>	<b>-2,157,383</b>	<b>-775,079</b>	<b>-</b>	<b>663,570</b>	<b>-2,268,892</b>	<b>3,907,599</b>
Heritage Assets Total	<b>700,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>700,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>700,000</b>
Property, Plant, Equipment Total	<b>2,775,923,889</b>	<b>-179,405,484</b>	<b>187,386,165</b>	<b>189,721,679</b>	<b>-4,144,981</b>	<b>189,721,679</b>	<b>2,970,243,513</b>	<b>-496,067,368</b>	<b>-73,242,254</b>	<b>-721,505</b>	<b>2,785,163</b>	<b>-567,245,964</b>	<b>2,402,997,559</b>
<b>Grand Total</b>	<b>2,782,969,543</b>	<b>-178,812,402</b>	<b>187,386,165</b>	<b>189,721,679</b>	<b>-4,144,981</b>	<b>189,721,679</b>	<b>2,977,120,004</b>	<b>-498,224,751</b>	<b>-74,017,333</b>	<b>-721,505</b>	<b>3,448,733</b>	<b>-569,514,856</b>	<b>2,407,605,148</b>

DEPARTMENT	APPENDIX C KING CETSHWAYO DISTRICT MUNICIPALITY - SEGMENTAL ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2019													CARRYING VALUE	
	HISTORICAL COST							ACCUMULATED DEPRECIATION, IMPAIRMENT LOSSES & TRANSFERS							
	Opening Balance	Additions	Additions WIP	Capitalised WIP	Disposals	Transfer Cost	Closing Balance	Opening Balance	Additions	Accumulated Impairment	Disposals	Closing Balance			
COMMUNITY & SOCIAL SERVICES	43,382,210	-549,633	-	-	-	5,992,346	48,824,922	-270,421	-278,323	-	-	-548,744	48,276,177		
ENVIRONMENTAL HEALTH	85,898	-	-	-	-	-	85,898	-1,228	-11,199	-	-	-12,427	73,471		
EXEC & COUNCIL	14,968,091	-	-	-	-779,443	-	14,188,648	-7,869,885	-1,755,715	83	650,109	-8,975,408	5,213,239		
FINANCE & ADMINISTRATION	96,826,758	111,605	-	-3,339,692	-	-	93,598,671	-34,327,825	-5,937,104	11,960	2,796,592	-37,456,378	56,142,294		
KCDM	-	677,776	-	-	-	45,094,731	45,772,507	-	-397,630	-	-	-397,630	45,374,878		
KING CETSHWAYO	-	709,835	-	-	-	-	709,835	-	-38,404	-	-	-38,404	671,432		
MTUNZINI	-	12,155	-	-	-	-	12,155	-	-959	-	-	-959	11,196		
OTHER	131,301,825	-34,172,073	187,386,165	40,065,525	-24,451	138,489,299	422,980,765	-503,063	-4,275,086	-	1,752	-4,776,397	418,204,368		
SOLID WASTE	50,546,082	-	-	-	-	-	50,546,082	-35,504,083	-1,881,667	-	-	-37,385,750	13,160,332		
TECHNICAL SERVICES	1,703,048,166	-	-	-	-1,395	-	1,703,046,771	-419,748,246	-59,392,757	-733,547	280	-479,874,270	1,223,172,501		
WATER	742,810,513	-145,602,066	-	149,106,521	-	145,303	597,353,749	-	-48,490	-	-	-48,490	597,305,259		
<b>Grand Total</b>	<b>2,782,969,543</b>	<b>-178,812,402</b>	<b>187,386,165</b>	<b>189,721,679</b>	<b>-4,144,981</b>	<b>189,721,679</b>	<b>2,977,120,004</b>	<b>-498,224,751</b>	<b>-74,017,333</b>	<b>-721,505</b>	<b>3,448,733</b>	<b>-569,514,856</b>	<b>2,407,605,148</b>		

**APPENDIX D**  
**KING CETSHWAYO DISTRICT MUNICIPALITY: SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019**

	2018 Actual Income Year to date R	2018 Actual Expenditure Year to date R	2018 Surplus / (Deficit) R		2019 Actual Income Year to date R	2019 Actual Expenditure Year to date R	2019 Surplus / (Deficit) R
<b>Executive &amp; Council</b>	-	33,669,576	-33,669,576	<b>Executive &amp; Council</b>	-	42,089,235	-42,089,235
<b>Budget and Treasury Office</b>	585,368,061	48,319,014	537,049,047	<b>Budget and Treasury Office</b>	521,838,693	72,580,617	449,258,076
<b>Corporate Services</b>	416,513	61,677,298	-61,260,785	<b>Corporate Services</b>	235,568	59,573,736	-59,338,169
<b>Planning &amp; Development</b>	-	25,814,609	-25,814,609	<b>Planning and Development</b>	-	35,882,264	-35,882,264
<b>Community &amp; Social Services</b>	224,604	31,010,846	-30,786,242	<b>Community and Social Services</b>	217,111	31,687,360	-31,470,249
<b>Environmental Health</b>	19,095,200	18,402,270	692,930	<b>Environmental Health</b>	19,075,232	18,767,513	307,719
<b>Waste Management</b>	20,505,111	28,983,041	-8,477,929	<b>Waste Management</b>	26,218,252	21,048,662	5,169,591
<b>Waste Water</b>	75,594,185	111,782,261	-36,188,076	<b>Waste Water</b>	76,362,033	46,798,930	29,563,103
<b>Water</b>	241,881,185	474,297,761	-232,416,577	<b>Water</b>	261,892,127	538,438,916	-276,546,789
	<b>943,084,859</b>	<b>833,956,675</b>	<b>109,128,184</b>		<b>905,839,016</b>	<b>866,867,232</b>	<b>38,971,784</b>

**APPENDIX E**

**KING CETSHWAYO DISTRICT MUNICIPALITY: ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2019**

<b>Property, Plant &amp; Equipment</b>	<b>Additions</b>	<b>R</b>	<b>Under Construction</b>	<b>Total Additions</b>	<b>Budget</b>	<b>Variance</b>	<b>Variance %</b>
		R	R	R	R	R	%
Executive & Council	783,289			783,289	763,605	(19,684)	-3%
Finance & Admin	2,289,881			2,289,881	14,352,156	12,062,275	84%
Planning & Development	86,336			86,336	120,000	33,664	28%
Environmental Health	-			-	321,500	-	0%
Community Services	2,197,245			2,197,245	4,686,075	2,488,830	53%
Waste Management	578,002			578,002	633,964	55,962	9%
Water	4,974,526		168,761,170	173,735,696	295,113,603	121,377,907	41%
Waste Water	-		18,624,992	18,624,992	21,114,886	2,489,894	12%
<b>Total</b>	<b>10,125,990</b>		<b>187,386,162</b>	<b>198,295,442</b>	<b>337,105,789</b>	<b>138,488,848</b>	<b>41%</b>

**APPENDIX F**  
**KING CETSHWAYO DISTRICT MUNICIPALITY : DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 560 2003**

Name of Grants & Vote	Name of organ of state or municipal entity	CURRENT YEAR RECEIPTS					CONDITIONS MET TRANSFERRED TO REVENUE				
		Sept '18	Dec '18	March '19	June '19	-	Sep '18	Dec '18	Mar '19	June 19	-
Development Planning Shared Services	COGIA	300,000				-	102,852	103,929	71,672	21,547	
Drought Relief - Water Utilisation Feasibility Study (legal shared services)	COGIA			1,000,000		-	491,253	739,847	394,628	910,622	
Preparation of expanded RBIDZ	COGIA			1,000,000		-	481,253	739,847	394,628	910,622	
Growth & Development Summit	COGIA					-	3,628,829	11,055,027	37,995,856		
<b>Subtotal - Department of Co-operative Governance and Traditional Affairs</b>		<b>300,000</b>	<b>2,000,000</b>	<b>758,000.00</b>	<b>-</b>	<b>-</b>	<b>102,852</b>	<b>103,929</b>	<b>71,672</b>	<b>1,521,547</b>	<b>21,547</b>
Rural Transport Services & Infrastructure	DOT	1,770,000.00		758,000.00		-	20,437,138	19,111,221	24,123,459	53,894,871	37,995,856
<b>Subtotal - Department of Transport</b>		<b>1,770,000.00</b>		<b>758,000.00</b>		<b>-</b>	<b>20,437,138</b>	<b>19,111,221</b>	<b>24,123,459</b>	<b>53,894,871</b>	<b>37,995,856</b>
Regional Bulk Infrastructure Grant	DWS	30,000,000		90,000,000		-	16,841,707	40,698,528	30,039,010	78,303,835	13,048,632
Water Services Infrastructure Grant	DWS		20,000,000	68,300,000		-	16,841,707	40,698,528	30,039,010	78,303,835	15,899,015
<b>Subtotal - Department of Water and Sanitation</b>		<b>30,000,000</b>	<b>20,000,000</b>	<b>158,300,000</b>	<b>-</b>	<b>-</b>	<b>16,841,707</b>	<b>40,698,528</b>	<b>30,039,010</b>	<b>78,303,835</b>	<b>385,799</b>
MIG	MIG	53,000,000	45,000,000	69,200,000		-	189,133	86,954,830	69,563,777	52,173,161	11,2021
<b>Sub total - Department of Co-operative Governance</b>		<b>53,000,000</b>	<b>45,000,000</b>	<b>69,200,000</b>	<b>-</b>	<b>-</b>	<b>189,133</b>	<b>86,954,830</b>	<b>69,563,777</b>	<b>52,173,161</b>	<b>11,2021</b>
Local Government Finance Grant	NT	1,000,000		52,173,161		-	103,797,830	83,038,159	83,038,159	62,279,011	52,173,161
Equitable Share	NT	86,954,830	69,563,777			-					235,568
Levy Replacement	NT	103,797,830	83,038,159	62,279,011		-	397,625	7,931,340	6,345,064	4,758,828	
LC Seto - Discretionary Grant	NT					-		198,873,133	159,240,047	119,323,021	621,367
Environmental Health (EQS)	NT	7,931,340	6,345,064	4,758,828		-		1,491,327	2,000,128	1,903,924	2,346,621
<b>Subtotal - National Treasury</b>		<b>199,694,000</b>	<b>158,947,000</b>	<b>119,211,000</b>	<b>397,625</b>	<b>-</b>		<b>1,491,327</b>	<b>2,000,128</b>	<b>1,903,924</b>	<b>2,346,621</b>
EPWP Incentive Grant	PW	1,942,000	3,492,000	2,328,000		-		44,600	751,482	233,168	407,490
<b>Sub total - Department of Public Works</b>		<b>1,942,000</b>	<b>3,492,000</b>	<b>2,328,000</b>	<b>-</b>	<b>-</b>		<b>44,600</b>	<b>751,482</b>	<b>233,168</b>	<b>407,490</b>
EDTEA - Essential Oils	EDTEA					-					
<b>Sub total - Department of Economic Development Tourism and Environmental Affairs</b>						<b>-</b>		<b>44,600</b>	<b>751,482</b>	<b>233,168</b>	<b>407,490</b>
Sport and Recreation	KZN - DSR					-					
<b>Sub total - Department of Sports and Recreation</b>						<b>-</b>					
TOTAL		286,696,000	229,439,000	349,797,000	397,625		238,292,010	222,668,994	176,090,732	138,026,353	775,078,089
						866,329,625					

APPENDIX G KING CETSHWAYO DISTRICT MUNICIPALITY : APPROPRIATION STATEMENT (Reconciliation: Budget and in-year performance) 30 June 2019													
Description	2018/2019										Restated 2017/2018		
	Original Budget	Budget Adjustments (i.t.o s28 and s31 of the MFMA)	Final Adjustments Budget	Shifting of Funds (i.t.o s31 of the MFMA)	Virements (i.t.o Council Approved bylaw)	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Report Unauthorised Expenditure	Expenditure Authorised in terms of section 32 of MFMA	Balance to be recovered
<b>Financial Performance</b>													
Property Rates	-	-	-	-	-	-	-	-	-	-	-	-	-
Services Charges	86,260,130	-2,877,146	83,382,984	-	-	83,382,984	87,183,142	-	3,800,158	105%	101%	-	-
Investment Revenue	44,307,855	-4,800,000	39,507,855	-	-	39,507,855	40,968,328	-	1,460,473	104%	92%	-	-
Government Recognised - Operational	534,074,158	28,387,648	562,461,806	-	-	562,461,806	574,728,409	-	12,266,603	102%	108%	-	-
Other Own Revenue	1,510,313	2,918,030	4,428,343	-	-	4,428,343	2,609,457	-	-1,818,886	59%	173%	-	-
<b>Total Revenue (Excluding capital transfers and contributions)</b>	<b>666,152,456</b>	<b>23,628,532</b>	<b>689,780,988</b>	-	-	<b>689,780,988</b>	<b>705,489,336</b>	-	<b>15,708,348</b>			-	-
Employee Related Cost	250,354,808	-23,835,065	226,519,743	-	6,040,012	232,559,755	225,009,660	-	-7,550,095	97%	90%	-	-
Remuneration of Councillors	12,870,278	-400,000	12,470,278	-	-454,610	12,015,668	11,679,483	-	-336,185	97%	91%	-	-
Debt Impairment	2,827,790	6,000,000	8,827,790	-	-	8,827,790	8,753,607	-	-74,183	99%	310%	-	-
Depreciation, Amortisation & Impairment	92,507,940	-	92,507,940	-	-	92,507,940	74,750,880	-	-17,757,060	81%	81%	-	-
Finance Costs	5,322,141	-	5,322,141	-	-	5,322,141	5,322,141	-	-	100%	100%	-	-
Bulk Purchases	28,534,000	5,000,000	33,534,000	-	5,850,749	39,384,749	39,200,886	-	-183,863	100%	137%	-	-
Other materials	-	-	-	-	-	-	-	-	-	-	-	-	-
Contract Services	286,998,084	49,638,336	336,636,420	-	2,986,000	339,622,420	361,123,625	21,501,205	21,501,205	106%	126%	-	-
Transfers and Subsidies	2,910,000	16,750,000	19,660,000	-	-305,000	19,355,000	19,355,000	-	-	100%	665%	-	-
Other Expenditure	122,072,192	18,536,830	140,609,022	-	-14,117,151	126,491,871	121,671,950	-	-4,819,921	96%	100%	-	-
<b>Total Expenditure</b>	<b>804,397,233</b>	<b>71,690,101</b>	<b>876,087,334</b>	-	-	<b>876,087,334</b>	<b>866,867,232</b>	<b>21,501,205</b>	<b>-9,220,102</b>			-	<b>833,956,675</b>
<b>Surplus / (Deficit)</b>	<b>-138,244,777</b>	<b>-48,061,569</b>	<b>-186,306,346</b>	-	-	<b>-186,306,346</b>	<b>-161,377,896</b>		<b>24,928,450</b>			-	<b>-44,169,577</b>
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	315,257,842	-8,147,096	307,110,746	-	-	307,110,746	200,349,680	-	-106,761,066	65%	64%	-	-
Contributions Recognised - Public	-	-	-	-	-	-	-	-	-	-	-	-	146,368,982
<b>Surplus / (Deficit) after capital transfers and contributions</b>	<b>177,013,065</b>	<b>-56,208,665</b>	<b>120,804,400</b>	-	-	<b>120,804,400</b>	<b>38,971,784</b>	-	<b>-81,832,616</b>			-	<b>6,928,779</b>
<b>Capital Expenditure &amp; Funds Sources</b>													<b>109,128,184</b>
<b>Capital Expenditure</b>	<b>321,812,842</b>	<b>15,292,947</b>	<b>337,105,789</b>	-	-	<b>337,105,789</b>	<b>198,295,442</b>	-	<b>-138,810,347</b>			-	<b>187,243,256</b>
Transfers and subsidies - Capital	315,257,842	-8,147,096	307,110,746	-	-	307,110,746	191,279,784	-	-115,830,962	62%	61%	-	-
Public Contributions & donations	-	-	-	-	-	-	-	-	-	-	-	-	170,978,778
Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-
Internally General Funds	6,555,000	23,440,043	29,995,043	-	-	29,995,043	7,015,658	-	-22,979,385	23%	107%	-	-
<b>Total Sources of Capital funds</b>	<b>321,812,842</b>	<b>15,292,947</b>	<b>337,105,789</b>	-	-	<b>337,105,789</b>	<b>198,295,442</b>	-	<b>-138,810,347</b>			-	<b>187,243,256</b>
<b>Cash Flows</b>													
Net cash from (used) operating	272,998,795	-50,479,101	222,519,694	-	-	222,519,694	192,945,745	-	-29,573,949	87%	71%	-	193,426,390
Net cash from (used) investing	-321,812,842	-15,292,947	-337,105,789	-	-	-337,105,789	-189,716,835	-	147,388,954	56%	59%	-	-187,895,617
Net cash from (used) financing	-	-5,928,340	-	-5,928,340	-	-	-5,928,340	-5,928,340	-	100%	100%	-	-10,605,497
<b>Cash/cash equivalents at the year end</b>	<b>354,595,613</b>	<b>23,172,678</b>	<b>377,768,291</b>	-	-	<b>377,768,291</b>	<b>495,583,295</b>	-	<b>117,815,005</b>			-	<b>498,282,726</b>